ANNUAL REPORT
2017

LIFE IS FOR SHARING.

CONTENT

FINANCIAL HIGHLIGHTS

Income statement in HRK million	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Revenue	6,984	7,756	7,125	11.0%	2.0%
Mobile	2,821	3,305	2,988	17.2%	5.9%
Fixed voice	953	927	843	-2.8%	-11.5%
Broadband & TV	1,315	1,439	1,318	9.4%	0.3%
Fixed wholesale	365	369	347	1.0%	-4.9%
Other fixed	742	835	779	12.5%	4.9%
System solutions	677	731	698	8.0%	3.2%
Miscellaneous	112	151	151	34.7%	34.7%
EBITDA before exceptional items	2,821	3,138	2,918	11.2%	3.4%
Exceptional items	85	151	144	78.0%	69.4%
EBITDA after exceptional items	2,736	2,986	2,774	9.1%	1.4%
EBIT (Operating profit)	1,239	1,118	1,066	-9.8%	-14.0%
Net profit after non controlling interests	934	863	833	-7.5%	-10.8%
EBITDA margin before exceptional items	40.4%	40.5%	41.0%	0.1 p.p.	0.6 p.p.
EBITDA margin after exceptional items	39.2%	38.5%	38.9%	-0.7 p.p.	-0.2 p.p.
EBIT margin	17.7%	14.4%	15.0%	-3.3 p.p.	-2.8 p.p.
Net profit margin	13.4%	11.1%	11.7%	-2.2 p.p.	-1.7 p.p.

Balance sheet	At 31 Dec 2016	At 31 Dec 2017 with CT	At 31 Dec 2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Total non current assets	8,889	10,385	10,132	16.8%	14.0%
Total current assets	5,566	5,353	4,991	-3.8%	-10.3%
TOTAL ASSETS	**14,455**	**15,738**	**15,122**	**8.9%**	**4.6%**
Total issued capital and reserves	12,046	12,573	12,325	4.4%	2.3%
Total non current liabilities	561	737	695	31.4%	23.8%
Total current liabilities	1,847	2,429	2,102	31.5%	13.8%
TOTAL EQUITY AND LIABILITIES	**14,455**	**15,738**	**15,122**	**8.9%**	**4.6%**

Cash flow	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Net cash flow from operating activities	2,075	2,691	2,406	29.7%	16.0%
Net cash flow from investing activities	-1,742	-1,215	-1,060	30.2%	39.1%
Net cash flow from financing activities	-833	-981	-909	-17.8%	-9.2%
Cash and cash equivalents at the end of period	**2,676**	**3,152**	**3,095**	**17.8%**	**15.6%**

CAPEX	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
CAPEX	1,608	1,885	1,745	17.2%	8.5%
CAPEX / Revenue ratio	23.0%	24.3%	24.5%	1.3 p.p.	0.1 p.p.

Number of employees	At 31 Dec 2016	At 31 Dec 2017 with CT	At 31 Dec 2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Number of employees (FTEs)	4,427	5,110	4,588	15.4%	3.6%

Residential segment	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Revenue	3,750	3,754	3,754	0.1%	0.1%
Contribution to EBITDA before exceptional items	**2,565**	**2,546**	**2,546**	**-0.7%**	**-0.7%**

Business segment	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Revenue	2,793	2,883	2,889	3.2%	3.4%
Contribution to EBITDA before exceptional items	**1,373**	**1,329**	**1,332**	**-3.2%**	**-3.0%**

Network & support functions	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Contribution to EBITDA before exceptional items	**-1,355**	**-1,236**	**-1,236**	**8.8%**	**8.8%**

Segment optima consolidated	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Revenue	441	483	483	9.5%	9.5%
Contribution to EBITDA before exceptional items	**239**	**275**	**275**	**15.4%**	**15.4%**

SEGMENT CRNOGORSKI TELEKOM CONSOLIDATED	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Revenue	n/a	636	n/a	n/a	n/a
Contribution to EBITDA before exceptional items	**n/a**	**223**	**n/a**	**n/a**	**n/a**

OPERATIONAL STATISTICS

Key operational data	2016	2017	% of change A17/A16
Mobile customers in 000			
Number of customers	**2,234**	**2,244**	**0.5%**
- Prepaid	1,075	985	-8.4%
- Postpaid	1,159	1,260	8.7%
Minutes of use (MOU) per average customer	**206**	**216**	**4.8%**
Blended ARPU (monthly average for the period in HRK)	**76**	**77**	**0.9%**
- Prepaid	42	43	1.9%
- Postpaid	110	106	-3.3%
SAC per gross add in HRK	**105**	**109**	**3.9%**
Churn rate (%)	**2.8**	**2.5**	**-0.3 p.p.**
Penetration (%) [1]	**114**	**118**	**4.3 p.p.**
Market share of customers (%) [1]	**47**	**46**	**-0.8 p.p.**
Smartphone customers (%) [2]	**57**	**58**	**1.0 p.p.**
Smartphones sold (%) [3]	**79**	**84**	**5.0 p.p.**

[1] Source: internal estimation of the competitors customers for EO December 2017
[2] Number of customers using a smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)

Key operational data	2016	2017	% of change A17/A16
Fixed mainlines in 000			
Fixed mainlines - retail [1]	924	875	-5.4%
Fixed mainlines - wholesale (WLR - wholesale line rental)	83	63	-24.2%
ARPU voice per user (monthly average for the period in HRK) [2)]	84	78	-6.9%
IP mainlines/customers in 000			
Broadband access lines - retail [3]	618	624	1.0%
Broadband access lines - wholesale [4]	134	131	-2.3%
TV customers	401	417	4.0%
Broadband retail ARPU (monthly average for the period in HRK)	122	117	-3.8%
TV ARPU (monthly average for the period in HRK)	82	81	-1.4%
Wholesale customers in 000			
ULL (Unbundled Local Loop)	148	135	-9.2%

1 Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
2 Payphones excluded
3 Includes ADSL,VDSL, FTTH and Naked DSL
4 Includes Naked Bitstream + Bitstream

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

Presentation of information in the Annual Report

Unless the context otherwise requires, references in this publication to "HT Group" or "the Group" or are to the Company - Hrvatski Telekom d.d., together with its subsidiaries.
References to "HT" or "Company" are to the Company - Hrvatski Telekom d.d.
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, usluge integracije informatičkih tehnologija d.o.o.
References in this publication to "Agency" are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.
Presented financial figures may slightly differentiate from Consolidated Financial statements due to rounding principle (in Consolidated Financial statements all mathematic operations are performed with numbers without decimal places).

INTRODUCTION

LETTER TO SHAREHOLDERS

Dear shareholders,

Another successful year is behind us and we have posted an increase in all the key indicators. The two-digit increase in revenue and EBIDTA and even higher investments have all confirmed that, after a four-year transformation period, Hrvatski Telekom (HT) is steadily becoming a modern and agile company focused on the future and growth across all business segments.

With the acquisition of Crnogorski Telekom, we have made the initial major step into the region and can already see the first synergy effects. Crnogorski Telekom kept its leading market position in both fixed and mobile segments, and with its positive contribution to HT results, we will continue to grow stronger in the coming years.

Therefore, I would like to thank you all for the support that you have shown us in making this move, and proudly highlight the company's 2017 results. We maintained our leading position in all the market segments. HT consolidated revenue went up by 11% y-o-y to HRK 7.756 billion. Excluding the effects of the two newly consolidated companies, Crnogorski Telekom and H1 Telekom, which was acquired by Optima Telekom in 2017, HT posted a 1.5% revenue increase.

Due to the business stabilization achieved over the past four years, we have an opportunity to make considerable investments. Our growth is based primarily on investments in increasing the capacity of the broadband internet access, improving user experience and increasing competitiveness.

We increased our capital investments by an additional 8.5% to HRK 1.745 billion and, over the past four years, we have invested more than HRK 6 billion. With such investments, HT will independently meet 70% of the goals outlined in the European Digital Agenda for Croatia by 2020.

Investments in the fixed network enabled fiber optic access for 374,000 households and access speeds of over 30 Mbit/s for as many as 879,000 Croatian households.

Furthermore, we increased our mobile internet speeds by 38% on average, despite the surge in the roaming traffic during last year's tourist season of as much as 330%. We also increased our 4G capacities by 34%.

What we at HT are particularly proud of is the independent international P3 award for the best mobile network in Croatia and one of the best mobile internet services in Europe.

Additionally, sizeable investments in technologies have allowed us to be the first in the market to launch the PanTera network of the future pilot project, which provides customers in a, for the time being, limited area of Croatia with superior internet speeds of 1 Gbit/s and 4K TV content.

We also worked on improving our offer. We fully replaced the TV platform and, by year-end, as many as 250,000 of our TV customers enjoyed the experience of watching the TV of the future. Moreover, we launched new hybrid tariff plans and hybrid internet access, and very soon we will celebrate the second anniversary of Magenta 1. It is a premium service, which has so far attracted more than 120,000 users, primarily due to the best network, numerous benefits and the richest TV content in Europe.

In May, we launched a project of the company's business and digital transformation. Over the next three years, we will invest HRK 210 million in it, with the goal of reacting faster and more agile to both market trends and ever-demanding customer needs.

Even with such considerable investments, we witnessed a growth of the key profitability measures. EBITDA before exceptional items went up by 11.2% to HRK 3.138 billion, with a strong EBITDA margin of 40.5%. Excluding the impact of Crnogorski Telekom and H1 Telekom, EBITDA before exceptional items increased by 2.8%.

Just as last year, both the Management Board and the Supervisory Board proposed to the General Assembly that dividend be distributed at HRK 6 per share. The dividend payment would total HRK 490,020,384, which is 58.25% of the 2017 net profit. For 2018, in line with the Dividend Policy, the Management Board expects the payment of dividends to be a minimum amount of HRK 6 per share.

We also continued with the Share Buyback Program; by year-end, we acquired 216,005 own shares or 0.26% of the share capital, for HRK 37.6 million.

In 2018, we will continue with our strategy of growth and investments in infrastructure development, with innovations and further improvements to the customer experience.

I would like to thank all the employees and my colleagues on the Management Board and the Supervisory Board. I am confident that in 2018 we will continue to achieve our planned results and meet your expectations.

Davor Tomašković,
President of the Management Board, Hrvatski Telekom d.d.

CORPORATE PROFILE

At a Glance

HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services.

The core activities of Hrvatski Telekom d.d. (HT d.d. or the Company) and its subsidiary companies comprise the provision of electronic communications services and design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet, IPTV and ICT services, retail electricity services, data transmission services (lease of lines, Metro-Ethernet, IP/MPLS, ATM), operating with GSM, UMTS and LTE mobile telephone networks.

History and Incorporation

Hrvatski Telekom d.d. is a joint stock company, majority owned by Deutsche Telekom Europe B.V. It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT – Hrvatska pošta i telekomunikacije (HPT s.p.o.) was separated and transferred into two new joint stock companies, HT – Hrvatske telekomunikacije d.d. (HT d.d.) and HP – Hrvatska pošta d.d. (HP d.d.). The Company commenced operations on 1 January 1999.

Pursuant to the terms of the Act on Privatization of Hrvatske telekomunikacije d.d. (AoP) (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold 35% of shares in HT d.d. to Deutsche Telekom AG (DTAG), and on 25 October 2001, DTAG purchased further 16% of shares in HT d.d. and thus became the majority shareholder with a 51% stake.

Pursuant to the Share Transfer Agreement, in December 2013, DTAG transferred 51% of its shares in the Company to T-Mobile Global Holding № 2 GmbH. Pursuant to the Deed of issuance of a share against non-cash contribution, in February 2014, T-Mobile Global Holding № 2 GmbH transferred 51% of the shares in the Company, to CMobil B.V. In April 2015, CMobil B.V. changed its registered name into Deutsche Telekom Europe B.V. The above mentioned transfers of shares were executed as a part of the internal restructuring performed within DTAG and as a result thereof, DTAG's influence in HT d.d. remains unchanged.

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's registered name changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded in T-HT, thus becoming a part of the global T- family of Deutsche Telekom. This evolution of corporate identity was followed by the creation of trademarks for the two separate business units of the Group: the fixed network operations business unit, T-Com – which provides wholesale, Internet and data services; and the mobile operations business unit, T-Mobile.

On 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the AoP.

In May 2006, the Company acquired 100% of shares of Iskon Internet d.d., one of the leading alternative telecom providers in Croatia.

As part of the continued privatization of HT d.d., on 5 October 2007, the Republic of Croatia sold 32.5% of HT ordinary shares through an Initial Public Offering (IPO). Of the total shares included in the IPO, 25% were sold to Croatian retail investors, while 7.5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, while private and institutional investors are holding a share of 38.5% in total.

In October 2009, T-Mobile Croatia was merged into HT d.d., effective as of 1 January 2010. HT Group was organized into Residential and Business unit. On 21 May 2010, the Company's registered name was changed from HT – Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d.

On 17 May 2010, HT d.d. completed the acquisition of IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments.

In December 2010, according to the records stored in the Central Depository & Clearing Company, the Republic of Croatia transferred 3.5% of its shares in the Company, to the Pensioners' Fund. On 12 December 2013, the Pensioners' Fund transferred 3.5% of shares in the Company to the account of the Restructuring and Sale Center (Centar za restrukturiranje i prodaju – CERP). The Republic of Croatia established CERP in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Republic of Croatia again holds a stake in HT d.d. In December 2015, following the public auction, CERP sold 500,000 of its shares in the Company (0.6% of HT d.d. share capital) via Zagreb Stock Exchange trading system. Following this sale of shares CERP reduced its holding from 3.5% to 2.9%.

In June 2014 HT took over management of OT – Optima Telekom d.d. (Optima), following the completion of the pre-bankruptcy settlement procedure. By the conversion of claims into share capital, and following the realization of a Mandatory Convertible Loan instrument in July 2014, HT has acquired total of 19.1% of Optima's share capital.

Zagrebačka banka d.d., as the largest creditor of Optima, transferred controlling rights acquired in the pre-bankruptcy settlement procedure to HT. Croatian competition agency (Agencija za zaštitu tržišnog natjecanja - AZTN), has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima. The duration of the concentration of HT and Optima shall be limited to a period of four years, starting from HT's acquisition of control over Optima.

On 3 November 2014 an extraordinary General Assembly of Optima was held, at which the conversion of Tax Administration receivables into company capital was approved, thereby increasing the share capital by a total amount of HRK 2,910,110.00. After the registration of this change in the Court Registry in 2015, the ownership interest of HT in Optima decreased to 19.02%.

In July 2016, Optima's Management Board adopted a strategic decision on the merger of H1 Telekom d.d. (H1) with Optima in order to achieve positive synergies among the companies and to increase Optima's value for its existing and new shareholders (previous H1 shareholders). Accordingly, Optima submitted to the AZTN an Application for Intended Concentration. Following the aforementioned change in circumstances, HT submitted a request to prolong the temporary management of Optima until 2021.

In June 2017, AZTN passed the decision by which the duration of temporary management rights of Optima for HT are prolonged for an additional three-year period, that is, until 10 July 2021. AZTN has also reached the decision on conditional approval of the concentration pursuant to the Merger Agreement of the company H1 into Optima, concluded on 29 July 2016. Merger is executed in such a way that the total assets of H1 are transferred to Optima, thereby H1 ceases to exist as a separate legal entity, and in exchange for H1 shares previous H1 shareholders obtain shares of Optima.

The procedure of the merger of H1 into Optima was completed as at 1 August 2017, and for the purpose of the merger procedure, an increase of share capital of Optima, for the amount of HRK 58,864,560.00, was also carried out. Increase of share capital was carried out by issuing 5,886,456 new ordinary shares that were transferred to previous shareholders of H1 Telekom. After the registration of this change in the Court Registry in August 2017, the ownership interest of HT in Optima decreased to 17.41%. Notwithstanding this decrease in ownership interest, controlling rights transferred to HT pursuant to the Agreement with Zagrebačka banka have remained unchanged.

At the beginning of January 2017, HT d.d. concluded a Share Purchase Agreement with Magyar Telekom, Nyrt, based in Budapest, Hungary. Under the agreement, Hrvatski Telekom acquires Magyar Telekom's 76.53% stake in Crnogorski Telekom A.D., based in Podgorica, Montenegro, at a purchase price of EUR 123.5 million (approximately HRK 933 million). Crnogorski Telekom is the largest telecommunications company in Montenegro and provides a full range of fixed and mobile telecommunications services. This transaction is part of HT's strategy of growth through expansion into regional markets. By creating considerable synergies, this acquisition will enable HT to provide added value for its shareholders and customers.

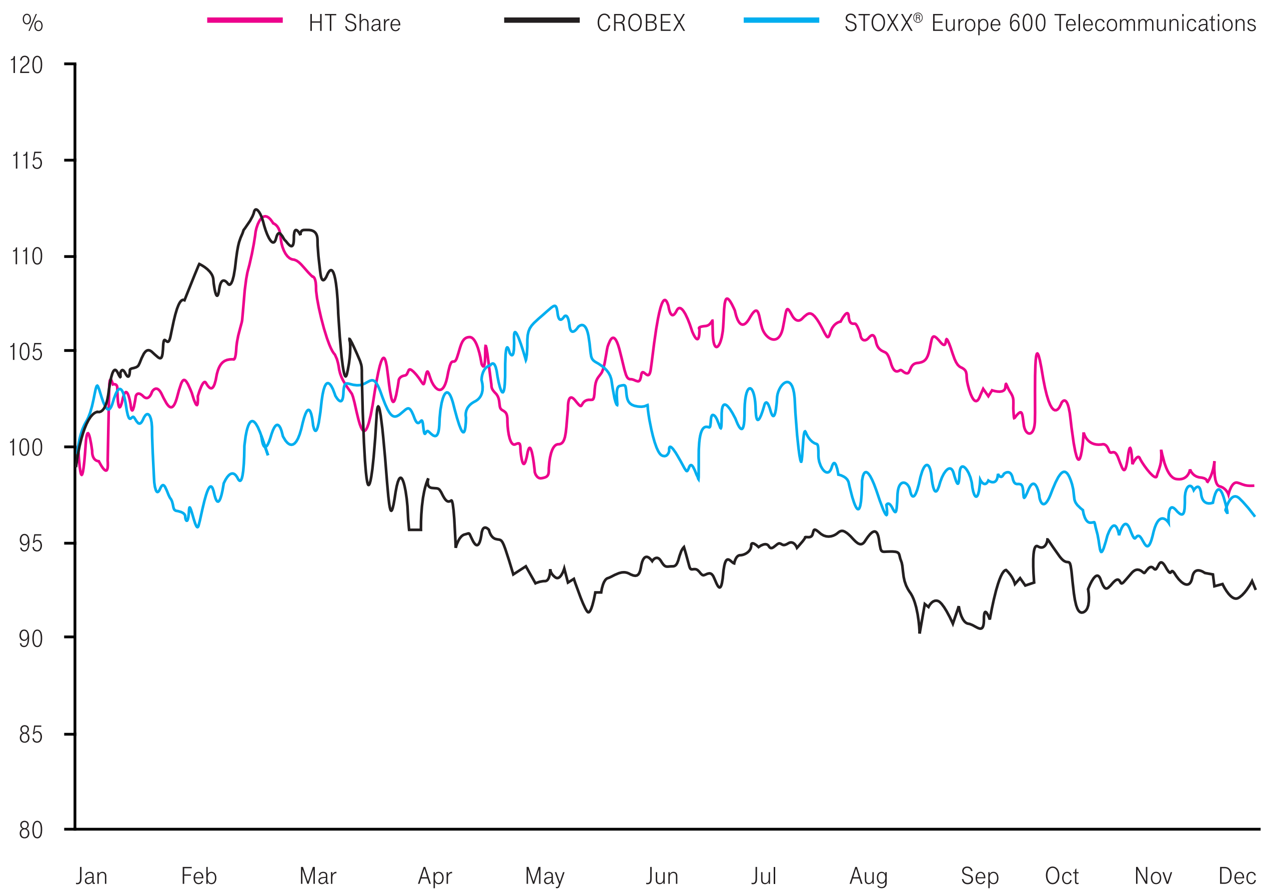
INVESTOR INFORMATION

Share price performance

2017 brought a good performance across most global equity markets, with US markets hitting successive record highs throughout the year. However, under pressure from the need for increased capital expenditure, the emergence of new entrants and regulatory uncertainty, the European telecoms sector in general did not perform well. In addition, in the first quarter of 2017 Croatia experienced a sudden major corporate crisis caused by the insolvency of Agrokor Group.

Consequently, following optimistic sentiment at the start of the year, the CROBEX, Croatia's benchmark index, suffered a significant correction in March-April, as shown in the graph below, and did not start to recover until the end of the year. HT Shares were not immune to the abovementioned broader trends in the European telecoms sector as well as the impact of market correction in Croatia, and for the whole of 2017, the share price fell 2.13% to HRK 165.40. Nevertheless, it outperformed both the CROBEX and STOXX® Europe 600 Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some of the Europe's largest telecom companies). The high for the year was HRK 191.50, against a low of HRK 164.61 (Source: Zagreb Stock Exchange).

HT Share as compared to CROBEX and STOXX® Europe 600 Telecommunications Index, 1 January 2017 - 31 December 2017



With turnover of HRK 280 million, HT was the second most traded share on the Zagreb Stock Exchange in terms of value (2016: HRK 357 million, making it the most traded).

At the last revision of the CROBEX index in September 2017, HT's weighting was again set at 10% of the index.

Since its initial public offering in October 2007, HT shares have traded on the Zagreb Stock Exchange, with Global Depositary Receipts trading on the London Stock Exchange until the delisting and termination of the GDR facility on 6 October 2014. The shares will continue to be listed and tradable on the Zagreb Stock Exchange.

In December, at the presentation ceremony of the Zagreb Stock Exchange Awards for 2017, HT received an award for its “Extraordinary Contribution to Capital Markets Development”, in recognition of its 10 years’ listing on the Exchange and the many accomplishments of the Company during this period.

Dividend policy

The dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007:

The future dividend policy should be that any dividends declared and paid in respect of any year following the year in which Offering takes place, shall range from 50% to 100% of the Company’s distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company’s business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

Dividend for the 2016 financial year

On 25 April 2017, the General Assembly of the Company approved a dividend payment to shareholders of HRK 491,313,414.00 (HRK 6.00 per share) representing a dividend payout ratio of 54.0% from the Company’s net profit. The dividend was paid in May 2017.

At the end of 2017, this represented a dividend yield of 3.6% on HT’s closing price of HRK 165.40.

Dividend proposal for financial year 2017

As communicated at the Capital Markets Day in November 2015, HT has committed to announcing a minimum target dividend for each year at the start of that particular year, within the range as set out in our dividend policy e.g. from 50% to 100% of the Company’s distributable profits depending on its overall financial position and working capital needs.

To comply with that commitment, in February 2017, HT announced that it expected to pay out a minimum dividend of HRK 6 per share out of 2017 net profit.

The Management Board and Supervisory Board of Hrvatski Telekom d.d. proposes to this year’s General Assembly the distribution of a dividend of HRK 6 per share which will be paid from the Company’s 2017 financial year net profit, resulting in a total dividend payment of HRK 490,020,384.00 and allocation of the remainder of the net profit of HRK 351,245,419.70 to retained earnings.

The General Assembly is planned to be convoked for 24 April 2018. According to the proposal, the above mentioned dividend will be paid to shareholders on 21 May 2018 (payment day), registered at the Central Depository and Clearing Company (SKDD) on 9 May 2018 (record date).

Dividend proposal for financial year 2018

The Management Board currently expects to pay out a minimum dividend of HRK 6 per share.

Taxation of dividends, at the rate of 12%, was introduced as of 1 March 2012, while capital gains tax at the same rate was introduced as of 1 January 2016 (capital gains tax will not be levied on shares acquired after 1 January 2016 and held for more than three years).

Share Buyback Programme

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011 and 2016 (authorization is valid until 21 April 2021) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the abovementioned General Assembly decisions.

As already published, in June 2017 the Management Board has passed a decision on launching the Share Buyback Programme (“Programme”), in line with the above stated authorization by the General Assembly, that was to start on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition during the duration of the Programme, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.00.

Until 31 December 2017, the Company acquired at Zagreb Stock Exchange in total 216,005 Company shares, representing 0.26% of the Company’s issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 37,569,685.53.

The Programme will run alongside the Company’s regular dividend payout policy, providing clear evidence of the Company’s intention to transfer value to its shareholders.

Shareholder Structure as at 31 December 2017

Deutsche Telekom Europe B.V.	51,0 %
War Veterans' Fund	6,7 %
Restructuring and Sale Center (CERP)/ Republic of Croatia	2,9 %
Private and other institutional investors	39,4 %

Total number of shares issued: 81,888,535

Deutsche Telekom Europe B.V. is the majority shareholder in HT with a 51% holding (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding № 2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).

The Croatian War Veterans' Fund owns 6.7%, with the Restructuring and Sale Center (CERP)/Republic of Croatia holding 2.9%.

The remaining 39.4% is owned by Croatian citizens and other domestic and foreign institutional investors. Raiffeisen Mandatory Pension Funds (Raiffeisen obvezni mirovinski fondovi) is the investor with the largest shareholding among private and institutional investors. As at 31 December 2017, Raiffeisen Mandatory Pension Funds had 9.1% of shares of the Company.

Financial Calendar

	Datum
Release of full year 2017 results	February 21, 2018
The General Assembly of the Company	April 24, 2018
Release of first quarter 2018 results	April 26, 2018
Release of first half 2018 results	July 26, 2018
Release of first nine months 2018 results	October 31, 2018

The above-mentioned dates are subject to change

General information on Shares

Share ISIN:	HRHT00RA0005
Trading symbol at Zagreb Stock Exchnage:	HT
Trading symbol at Central Depository and Clearing Company	HT-R-A
Reuters:	HT.ZA
Bloomberg:	HTRA CZ
Number of Shares:	81,888,535
Type:	Ordinary share
Nominal value:	No nominal value

Investor Relations

Investor Relations
Hrvatski Telekom d.d.

Roberta Frangeša Mihanovića 9
10110 Zagreb

Tel.: +385 1 49 12000, +385 1 49 11114
Fax: +385 1 49 12012
E-mail: ir@t.ht.hr

MANAGEMENT BOARD

DAVOR TOMAŠKOVIĆ
President of the Management Board and Chief Executive Officer

Davor Tomašković was born in 1969 in Vinkovci. He graduated as an electrical engineer from the University of Zagreb in 1994. He subsequently completed an MBA program at Bocconi University in Milan, Italy, graduating summa cum laude in 1997. For over a decade Mr.Tomašković has occupied top positions at some of the most prominent Croatian companies.

Following his graduation as an engineer, he was employed at the Croatian Ministry of Science and Technology implementing the first internet network for academia. After his graduation from Milan, he worked in Austria, at the consultancy firm McKinsey & Company.

In 2002, Mr. Tomašković returned to Croatia assuming the post of Director of Corporate Strategy and Business Development at Hrvatski Telekom.

In 2004, he was appointed President of the Management Board of Tisak, a leading Croatian distribution and retailing company. Subsequent to successful implementation of an extensive restructuring process at Tisak, he assumed position of President of the Management Board of TDR, the regional tobacco industry leader, position which he had occupied for seven years.

As of 1 January 2014, Mr.Tomašković was appointed to the position of President of the Management Board of HT d.d.

DANIEL DAUB
Member of the Management Board and Chief Financial Officer

Daniel Daub was born in 1976 in Germany. He completed his master's studies in Business Administration, Corporate Finance, Marketing and Entrepreneurship specialization, at German leading business school, WHU-Otto Beisheim.

From 2001 to 2006, he worked in T-Mobile International, first as a Project Manager in Corporate Finances and then as Executive Assistant to Chief Sales and Services Officer. From 2006 to 2009, he was Vice-President for Market Management/Sales Planning and Reporting in T-Mobile Deutschland-Telekom Vertrieb, responsible for strategic planning and business development in the field of sales and, i.a., played a leading role in iPhone launch on the German market.

From 2009 to 2014, Mr. Daub achieved a series of promotions within T-Mobile Austria. As Senior Vice-President for Channel Development and Services, afterwards for Sales and Service Operations, he introduced value-based management, enabling a substantial value increase of market investment, and contributed to a successful business shift by boosting effectiveness throughout the sales channels.

He arrived to the headquarters of Deutsche Telekom Group in 2014 as Vice-President for Equity & Innovation Controlling and was responsible for US and Europe segment Controlling, as well as for DT Group Innovation Controlling. Amongst other things, he played a leading role in the sales process of EE, mobile operator in the United Kingdom, as well as in "Save4Innovation" and "Return on Innovation" projects.

As of 1 November 2017, Mr. Daub was appointed Member of the Management Board of HT d.d. and Chief Financial Officer.

MANAGEMENT BOARD

BORIS BATELIĆ
Member of the Management Board and Chief Customer Experience Officer

Boris Batelić was born in 1973 in Pula. He graduated from the Faculty of Electrical Engineering and Computing in 1998 in Zagreb, and in 2010, he earned his EMBA degree at the Cotrugli Business School in Zagreb.

He started his professional career with Hrvatske telekomunikacije d.d. in 1999, in the technical services area, and in 2001, he advanced to the position of Key Account Manager.

In 2007, he was appointed Executive Director of Region West. In the period from 2010 to 2014, he was holding the position of Operating Director for Service Development and Network Systems. In March 2014, he took on responsibilities for implementation of the PSTN project, and in April of the same year, he was appointed Customer Technical Services Sector Director.

In May 2014, he was temporarily entrusted with activities falling within the scope of competence of the Member of the Management Board and Chief Customer Experience Officer, and was appointed to this function as from 1 May 2015.

MARIJA FELKEL
Member of the Management Board and Chief Human Resources Officer

Marija Felkel was born in 1973 in Zagreb. She graduated from University of Zagreb, Faculty of Law, in 1998. As a lawyer by education, she began her professional life in public administration and very soon became a specialist in labor law. In 2004, she joined Siemens Croatia.

In this international corporation, over a period of more than ten years of work, she was responsible for all HR processes, leading a broad range of projects in the area of human resources. Particularly outstanding are the results in drawing HR functions nearer to business functions; under her leadership, the HR function truly developed into a recognized partner of the company's business management.

This way, she gained rich experience, having held all managerial positions – from Personnel Administration Manager to Head of Human Resources. Moreover, Ms. Felkel achieved remarkable results in leading international projects, and she has been at the helm of the entire Adriatic Region Group at Siemens. She is particularly active in the work with young people, in cooperation with faculties, secondary and elementary schools, pointing out the importance of education and constant development.

Ms. Felkel is an active member of the HR Manager Association; she is promoting the HR function in the organization as a recognized business partner that contributes to the organization's success, advancing decisions that have an impact on employees as the company's most valuable resource. The Supervisory Board of Hrvatski Telekom has appointed Marija Felkel Member of the Management Board and Chief Human Resources Officer, for a period of three years; holds this position as of 18 January 2016.

MANAGEMENT BOARD

BORIS DRILO
Member of the Management Board and Chief Technical and Information Officer

Boris Drilo was born in Zagreb in 1976. He graduated from the Faculty of Electrical Engineering & Computing at University of Zagreb, where he spent one year as Research Assistant in the area of wireless data communications. He is a Master of Science in the field of Electrical Engineering, he also completed the Executive Leadership Programme at the Boston University, as well as the Executive MBA degree course at Cotrugli Business School in Zagreb.

He joined Hrvatski Telekom in the year 2012, coming from Ericsson Group, where he had spent 12 years at project and managerial functions related to the development and application of telecommunications networks and new technologies.

He was appointed to the HT Management Board from the position of Sector Director in the CTIO area. Prior to this, he was a Member of the Management Board in charge of technology and IT of Iskon Internet d.d., a company fully owned by HT.

On his career path, starting from the University and continuing through Ericsson Group and HT Group, he has been focused on business development in new telecommunications and technology areas, which is extremely important for development of the digital society and for the reinforcement of the position of HT Group as a technology leader on the Croatian market.

The Supervisory Board of Hrvatski Telekom has appointed Boris Drilo to the position of Member of the Management Board and Chief Technical and Information Officer for a three-year period commencing as of 1 January 2017.

NATAŠA RAPAIĆ
Member of the Management Board and Chief Operating Officer Residential

Ms. Rapaić was born in 1969 in Zagreb. She graduated from the Faculty of Economics in Zagreb in 1993 and completed MBA studies at IE in Madrid in 2000. Ms. Rapaić has gained professional experience working in various positions of responsibility. She was a co-founder and director of export/import operations in the company Milna Parket, economic analyst in the Economic Office at the Embassy of Spain, where she worked on research into the Croatian market and boosting economic cooperation between the two countries, and worked as a financial analyst in the investment department of the bank Grupo Caixa Galicia.

Ms. Rapaić acquired marketing experience in the telecom industry working as a consultant at Madrid-based Europraxis Consulting and on various projects for the marketing sector of Telefónica Móviles.

She joined Hrvatski Telekom in 2003 as the Executive Director of the Sub-Unit Responsible for Communications. On 1 September 2005, she was appointed Member of T-Com Executive Board and Chief Marketing Officer.

In 2010, she took over the position of the Operating Director of the Residential Marketing Sector and on 1 February 2013 was appointed to the position of Member of the Management Board of HT d.d. and Chief Operating Officer Residential.

SAŠA KRAMAR
Member of the Management Board and Chief Operating Officer Business

Saša Kramar was born in 1968 in Čakovec. He has many years of experience in the ICT industry, as well as in sales, marketing and management.

He started building his professional career at Novel Apple Centre, where he was employed for ten years, of which seven years as General Manager. He joined Iskon in 2000, starting at the position of Sales Manager, and in 2002, he assumed the position of Member of the Management Board in charge of sales, marketing, customer relations and public relations. At the General Assembly in 2005, he was appointed Member of the Management Board with a five-year term of office. At the Iskon Internet d.d. Supervisory Board session held in June 2007, he was appointed CEO of the company wholly owned by Hrvatski Telekom.

His mandate as President of the Management Board of Iskon was prolonged in 2011 and 2014.

During his long-standing work within the HT Group, he gained experience through key projects and managerial positions related to sales management, strategic management and customer relations management.

By decision of the Supervisory Board of HT, as of 1 June 2016 Saša Kramar took on responsibilities as HT's Member of the Management Board and Chief Operating Officer Business, for a term of three years.

Compensation to the Management Board members in 2017

Davor Tomašković, President of the Management Board and CEO, was paid in 2017 a fixed and variable salary in gross amount of HRK 3,488,058. Other benefits amounted gross to HRK 73,500 (company car usage). The gift for children was paid in amount of HRK 1,200 net.

Nataša Rapaić, Member of the Management Board and COOR, was paid in 2017 a fixed and variable salary and Long term incentive Plan (LTIP 2013) in gross amount of HRK 2,472,255. Other benefits amounted gross to HRK 42,976 (company car usage and other compensation). The gift for child was paid in amount of HRK 600 net.

Boris Batelić, Member of the Management Board and CCO was paid in 2017 a fixed and variable salary and Long term incentive Plan (LTIP 2013) in gross amount of HRK 1,590,898. Other benefits amounted gross to HRK 228,216 (company car usage, apartment rental). The gift for children was paid in amount of HRK 1,200 net.

Marija Felkel, Member of the Management Board and CHRO was paid in 2017 a fixed and variable salary in gross amount of HRK 1,277,050. Other benefits amounted gross to HRK 52,955 (company car usage). The gift for children was paid in amount of HRK 1,200 net.

Saša Kramar, Member of the Management Board and COOB was paid in 2017 fixed and variable salary in gross amount of HRK 1,528,737. Other benefits amounted gross to HRK 53,525 (company car usage). The gift for child was paid in amount of HRK 600 net.

Boris Drilo, Member of the Management Board and CTIO was paid in 2017 fixed and variable salary in gross amount of HRK 1,004,378. Other benefits amounted gross to HRK 40,961 (company car usage). The gift for children was paid in amount of HRK 1,200 net.

Josef Jakob Matthias Thuerriegl, Member of the Management Board and CFO, until 31st October 2017, was paid in 2017 fixed and variable salary in gross amount of HRK 2,184,369. Other benefits amounted gross to HRK 429,606 (insurance, apartment rental, school expenses for children, company car).

Daniel Darius Denis Daub, Member of the Management Board and CFO, from 1st November 2017, was paid in 2017 fixed and variable salary in gross amount of HRK 106,538. Other benefits amounted gross to HRK 204,484 (insurance, apartment rental and company car usage and other compensation). The gift for child was paid in amount of HRK 600 net.

Long Term Incentive Plans for management

Long-term incentive plans HT Variable 2014, Lead to Win 2015, Lead to Win 2016 and Lead to Win 2017 exist at Group level to ensure competitive total compensation for members of the Management Board and senior executives. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

HT Variable II 2013 ended on 31 December 2016, and the Supervisory Board has determined final target achievement of 33.7% and awarded amount of HRK 394,322 was paid to plan participants in June 2017.

HT Variable II 2014 is a cash-based plan with four equally weighted performance parameters that cannot be changed during plan duration. Two targets are financial KPIs, adjusted Earnings per Share (EPS) and adjusted operating Return On Capital Employed (ROCE), third and fourth targets are customer and employee satisfaction. Duration of the plan is four years effective from 1st of January 2014.

Upon expiry of the term of the plan, the Supervisory Board shall determine whether each of the targets have been achieved and appropriate decision adopted.

The Variable II amount awarded to International Business Leaders (BLT's) is fixed sum specified in the individual employment contract, while to other participants rewarded amount is 30% or 20% of the participants' individual annual salary as contracted on the beginning of the plan, depending on management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual total fixed salary and the annual variable salary in case of a 100% target achievement.

In 2017, HT continued with the participation in performance management corporate plan "Lead to win", model for HT senior management as one of the companies within DT Group. Rewarding of top management is directly linked to individual performance and the achievement of collective KPIs performance on level of the DT Group.

The LTI (Long term incentive) plan, as part of Lead to Win Program 2017, is a cash based plan and the awarded amount depends on Management Group (MG 1 - MG 3) to which position of participant belongs and on individual performance. Participants can be only those individuals who achieve performance rating of at least 3 (score range is from 1 to 5). The participation amount shall be from 10% to 30% of the annual target salary depending on MG and on individual performance rating. The plan currency shall be euros, and four defined success parameters are DT Group targets. They are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have achievement corridor of between 0% and 150%. The term of LTI shall cover the period from January 1st, 2017 to December 31st, 2020. The HT Supervisory Board shall declare the target achievement after the end of each year of the plan period.

Lead to Win Program 2017 also includes the Share Matching Plan (SMP), plan for the award of bonus shares to managers in Managements Groups MG1 – MG3. The entitlement for participation in the SMP and the amount of additional shares depend on the executive's overall performance. Plan participants purchase shares in DT before the start of the plan ("voluntary personal investment"). The amount of the voluntary personal investment is between 10% ("minimum amount") and a third ("maximum amount") of the gross payment amount of the 2016 Short Term Incentive (STI) (Variable I) paid out in 2017, and is determined by the plan participant when accepting the DT offer. The term of the 2017 SMP shall cover the period from July 1st, 2017 to June 30th, 2021. The shares in DT, purchased as part of the voluntary personal investment, shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan ("lock-up period"). At the end of the plan term, the plan participant shall be granted DT shares free of charge based on the personal performance of the plan participant. Share Matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members. There are 3 active SMP plans in 2017 with participation of President of the Management Board and other Management Board members (SMP 2015 – 2 MB members, SMP 2016 – 3 MB members, SMP 2017 – 1 MB member).

SUPERVISORY BOARD

Ilias Drakopoulos, Ph. D.	Chairman	Until 25 April 2017
Jonathan Richard Talbot	Chairman	From 25 April 2017
Ivica Mišetić, Ph. D.	Deputy chairman	Member from 21 April 2008 Deputy chairman from 8 May 2008
Dr. Oliver Knipping	Member	From 25 April 2012
Vesna Mamić	Member, workers' representative	From 1 January 2016
Damir Grbavac	Member	From 25 April 2012
Dolly Predovic	Member	From 29 April 2014
Marc Stehle	Member	From 16 December 2015
Eirini Nikolaidi	Member	From 25 April 2016
Evelyn Jakobs	Member	Until 25 April 2017
Eva Somorjai-Tamassy	Member	From 25 April 2017

Compensation to the members of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 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, in the amount of 1.5 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, in the amount of 1.25 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, in the amount of 1.25 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.

Compensation to the Supervisory Board members in 2017

		The period of 2017 in which the allowance was paid		
		From	Until	Gross I (HRK)
Vesna Mamić	SB Member	1st January	31st December	155,828.61
Dolly Predovic	SB Member	1st January	31st December	185,232.08
Ivica Mišetić	SB Member	1st January	31st December	196,395.63
Total				**537,456.32**

SUPERVISORY BOARD REPORT

Pursuant to Article 263, paragraph 3, and Article 300.c of the Companies Act and Article 31 of the Articles of Association of Croatian Telekom Inc., the Supervisory Board of Croatian Telekom Inc., Zagreb, Roberta Frangeša Mihanovića 9, (hereinafter referred to as "HT d.d." or "the Company"), consisting, on the day of issuance of this report, of Mr. Jonathan Richard Talbot, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Dr. Oliver Knipping, Mr. Marc Stehle, Ms. Eirini Nikolaidi, Ms. Éva Somorjai-Tamássy, Ms. Dolly Predovic, Mr. Damir Grbavac and Ms. Vesna Mamić, submits to the General Assembly this

REPORT

on performed supervision during the business year 2017
and on the results of the examination of the business and financial reports for the business year 2017

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2017,
- the results of the examination of the annual financial statements as of 31 December 2017 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2017,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2017 significant Company shareholders are as follows.

- Deutsche Telekom Europe B.V. is the majority shareholder with a 51 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding №2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG).
- The Croatian War Veterans' Fund owns 6.7 per cent of shares and Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), legal successor to the Government Asset Management Agency, owns 2.9 per cent of shares of the Company. The remaining 39.4 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors.
- Raiffeisen Mandatory Pension Funds (category A and category B) are investors with the largest shareholding among the private and institutional investors, with a 9.1 per cent holding in the Company.

An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site.

The shares of the Company are included in depository services of the Central Depository & Clearing Company as of 12 July 2002.

The Company's shares have been listed on the Zagreb Stock Exchange since 5 October 2007.

Supervisory Board

The Supervisory Board consists of nine members, five members representing Deutsche Telekom AG, one member nominated by the Raiffeisen Mandatory Pension Funds, two independent members and one member appointed by the Workers' Council of HT d.d.

During 2017, the composition of the Supervisory Board of the Company changed as follows:

- Mr. Ilias Drakopoulos, Ph.D., and Ms. Evelyn Jakobs resigned from their positions in the Supervisory Board, both with effect as of 25 April 2017.
- Ms. Éva Somorjai-Tamássyand Mr. Jonathan Richard Talbot were elected as new Members of the Supervisory Board, as of 25 April 2017.
- Mr. Jonathan Richard Talbot was elected as the Chairman of the Supervisory Board, as of 25 April 2017.

Audit Committee

On the day of issuance of this report Mr. Marc Stehle, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Ms. Susanne von Campenhausen, Member, are the members of this Committee

Mr. Klaus-Peter Kneilmann has resigned effective as of 6 October 2017, and Mr. Marc Stehle, has been appointed as the new Committee Chairman, as of 25 October 2017.

Ms. Susanne von Campenhausen has been appointed as the third Member of the Audit Committee, as of 8th December 2017.

Compensation and Nomination Committee

On the day of issuance of this report Mr. Jonathan Richard Talbot, Chairman, Ms. Éva Somorjai-Tamássy, Member, and Ms. Dolly Predovic, Member, are the members of this Committee.

Mr. Ilias Drakopoulos, Ph.D., and Dr. Oliver Knipping resigned from their positions in the Committee, both with effect as of 25 April 2017, and Ms. Éva Somorjai-Tamássy, has been appointed as the new Member of this Committee, as of 25 April 2017.

Pursuant to the By-Laws on the Work of the Compensation and Nomination Committee, the newly elected Chairman of the Supervisory Board, Mr. Jonathan Richard Talbot, became Member and the Chairman of the Compensation and Nomination Committee of the Supervisory Board, by default, as of 25 April 2017.

Management Board

On the day of issuance of this report the Management Board of the Company has seven members

The following section lists the changes in the Management Board membership:

- Mr. Josef Thürriegl resigned from his position of Chief Financial Officer (CFO), effective as of 1 November 2017.
- Mr. Daniel Daub was appointed as Chief Financial Officer (CFO), as of 1 November 2017.
- Mr. Davor Tomašković was re-appointed as President of the Management Board (CEO) for another term of office in the duration of four years, with commencement as of 1 January 2018.

Performed supervision during the business year 2017

In 2017, there were five sessions of the Supervisory Board and four decision makings out-of-session.

The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company and the By-Laws on the Work of the Supervisory Board of the Company.

Aside from the regular reports of the Management Board on the results and status of business operations of the Company and joint consultations on business development, major topics listed below were discussed in detail, and the Supervisory Board provided respective prior approvals, when required, and recommendations:

- Transformation activities and Horizont strategic program, closed in 2017, and the delivered results in cost savings, customer experience, simplification product portfolio, process optimization, defined B2B Growth Strategy and launch of new services, as well the defining of the new HT Corporate Culture,
- Redesigned and simplified product portfolio for all customer segments on the market (new Fixed, Magenta 1 and Mobile portfolios) and introduction of new innovative services, including voice over LTE (VoLTE), NextTV platform and Hybrid Internet Access,
- P3 measurement results and the international independent award won for best mobile network in the voice and data segment in Croatia,
- Significant speed increase in optical network, speed increase in mobile network even with significant increase of mobile traffic and visitors data traffic following RLH regulation, and increase of capacity and stability in the transport network,
- Investment activities of the Company focused on modernisation and development of high-speed Internet access infrastructure and the BITT (Business and IT Trasformation) program, , which will include major interventions in HT's systems and service portfolio in order to position HT as a forerunner in the customer experience area,
- Customer satisfaction and Employee satisfaction initiatives and achieved results,
- HR accomplishments and challenges, plans and activities, performance management system, HT Culture, etc.,
- Corporate Governance topics and membership of the Management Board as described above,
- Proposals for the General Assembly,
- Approval for Acquisition of 76.53% stake in Crnogorski Telekom A.D., as part of HT's growth strategy through expansion into regional markets,
- Performances of Crnogorski Telekom A.D. and synergy projects launched in 2017, with results in increasing sales productivity, improving debt collection, reducing direct cost and positively impacting customer satisfaction,
- Business Plans for 2018 and onwards,
- Composition of the Compensation and Nomination Committee and their reports and proposals on target-setting and target-achievement of the Company and its management and remuneration proposals for MB Members,
- Composition of the Audit Committee and their reports,
- Procedures for commissioning external auditors' services,
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange,
- Planned transfer of HT's ownership interests and shares in subsidiaries seated in the Republic of Croatia, to HT's subsidiary company M-Tele Ltd., in order to achieve more appropriate asset management, and for the purpose of implementation of the long-term strategy of governance over all of its affiliates,
- Launching of the Share Buyback Programme at the Zagreb Stock Exchange, in accordance with the decision of the General Assembly as of 21 April 2016, on acquiring the Company's shares,
- Consolidation in fixed market and the approval of the Croatian Competition Agency for prolongation of management control of HT d.d. over Optima Telekom d.d. for an additional three-year period, that is, until 10 July 2021, and for the merger of H1 Telekom d.d. to Optima Telekom d.d., completed in August 2017,
- Financial performance of the Company in 2017.

In 2017, the Audit Committee of the Supervisory Board held four regular sessions and one decision making out-of-session and discussed various topics, in particular:

- 2016 year-end closing of HT d.d. and HT Group,
- Quarterly financial results of HT d.d. and HT Group,
- External Auditor's Report,
- Risk Reporting for HT d.d. and HT Group,
- Reports of the Compliance officer,
- Implementation and effectiveness of internal control over financial reporting,
- Internal Control System optimization,
- Annual audit program 2017 execution,
- Supervision over the realization of audit measures,
- Set up of Annual audit program 2018,
- Updated Internal Audit Charter.

Audit Committee finds that in relation to financial reporting, risk management, compliance management system, internal and external audit engagement, there is no indication that internal control system does not work effectively.

Results of the examination of the Management Board report on relations with the governing company and affiliated companies thereof

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Dependent Company), compiled in accordance with Articles 474 and 497 of the Companies Act and in accordance with the principles of conscientious and truthful reporting.

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2017 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, according to standard conditions and by applying regular prices.

The Company's auditor, PricewaterhouseCoopers d.o.o., Zagreb, reported on the results of its audit and issued the clean confirmation on the audit of the above report, as decribed in continuation.

Report of Independent Accountants

The Company's auditor, PricewaterhouseCoopers d.o.o., reported on the results of its examination of the above report in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Information". Based on the results of their work as described in their audit report, the auditor concluded that nothing has come to their attention that causes them to believe that the Related Party Report for the year ended 31 December 2017 is not consistent with the books and records of the Company, in all material respects, in accordance with the criteria as set out in Article 497 of the Croatian Companies Act.

The Supervisory Board has no objections to the results of the auditor's examination and statement of the Management Board as listed above.

The Supervisory Board states that the Company, according to the circumstances that were known at the time of undertaking the legal affairs and actions stated in the said Management Board Report, received a respective counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2017 and the proposal on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2017.

The Supervisory Board, after considering the audited financial statements for the business year 2017, established that the Company acted in 2017 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2017.

The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The said financial statements are considered adopted by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2017 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit is in accordance with the business results, is in accordance with the business plan for the current year, protects the Company's and shareholders' interests and is in accordance with the positive regulations of the Republic of Croatia.

Therefore, the Supervisory Board gave its consent to the proposal of the Management Board on the distribution of the net profit from 2017, and that is, that a part of net profit in the amount of HRK 490,020,384.00 shall be paid out as dividend to shareholders, in the amount of HRK 6.00 per share, and the remainder of net profit in the amount of HRK 351,245,419.70 is to be allocated to retained earnings.

The joint proposal by the Management Board and the Supervisory Board on the utilization of profit for 2017 is to be referred to the General Assembly of the Company for decision making.

Summary

The Management Board of the Company regularly informed the Supervisory Board of the Company's business, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations.

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2017.

After analyzing the reports of the Management Board of the Company and monitoring the development in the financial indicators, it was assessed that targets set for 2017 were delivered. Financial outlook was achieved, and the Company is reporting strong financial performance, with year-on-year revenue and EBITDA growth, accompanied by significant investments in network infrastructure, marked by higher capital expenditure realization compared to previous year, with the focus on network modernization, increasing broadband access availability, customer experience and boosting competitiveness. Revenue growth was achieved through strong performance in mobile segment, continuous growth in system solutions revenues and through fixed telecommunications business, taking advantage of consolidated contribution of Crnogorski Telekom and Optima Telekom.

Results of HORIZONT 2017 program are visible in terms of cost savings, customer experience, simplification of product portfolio, process optimization, defined B2B Growth Strategy and launch of new innovative services.

HT Group maintains a leading position in the Croatian telecommunications market across all business segments in 2017 successfully responding to challenging regulatory environment and constantly increasing competitive pressure.

This report shall be delivered to the General Assembly of the Company.

Jonathan Richard Talbot,
Chairman of the Supervisory Board

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Hrvatski Telekom d.d. (hereinafter referred to as "the Company"), in accordance with Article 250b, paragraphs 4 and 5, and Article 272p of the Companies Act ("Official Gazette" Nos. 111/93, 34/99, 121/99, 52/00 – Decision of the Constitutional Court of RoC, 118/03, 107/07, 146/08, 137/09, 152/11 – clean text, 111/12, 68/13 and 110/15), issues the Corporate Governance Code Compliance Statement.

The Company applies the Zagreb Stock Exchange Corporate Governance Code, in effect as of 1 January 2011, and published on the web site of the ZSE (www.zse.hr) and on the web site of the Croatian Financial Services Supervisory Agency, HANFA (www.hanfa.hr).

The Company complies with the recommendations of the Code, with the exception of those that were not, or are not practical for the Company to implement at the relevant time. These exceptions are as follows:

- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Shareholders who are not in a position to vote in person at the Assembly by themselves should at their own discretion determine suitable proxies who are obliged to vote in compliance with the shareholders' instructions (Part 2.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate by means of modern communication technologies. Such participation will be implemented in the future to the extent that it is practical (Part 2.6.).
- The Supervisory Board is not composed mostly of independent members. Two out of nine Supervisory Board members are independent members (Part 4.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members' contribution to the Company's business performance (Part 4.7.).
- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 4.12.1. and 4.12.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. Out of three Committee members one is an independent member of the Supervisory Board, one is a member of the Supervisory Board representing Deutsche Telekom AG, and also a financial expert. The remaining Committee member is an internal audit expert independent from the Supervisory Board, employee of Deutsche Telekom AG (Part 4.12.3.).
- The Supervisory Board did not prepare an evaluation of its performance in the preceding period (Part 4.16.).
- Members of the Management Board are entitled to remuneration determined according to the Global Compensation Guidelines and Performance Dialogue Policy for MB Members, adopted by the Supervisory Board. Remuneration to Members of the Supervisory Board is determined by General Assembly decision in relation to the average net salary of Company employees. The Statement on the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The data on the remuneration of the Management Board and the Supervisory Board is disclosed within the Annual Report (Part 6.3.).

Internal control and risk management

The principal responsibilities of the Audit Committee of the Supervisory Board are the preparation of the decisions of the Supervisory Board and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within HT d.d. and HT Group. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

The Audit Committee is authorized to:

- request the necessary information and supporting documentation from the management and senior employees of the Company and from external workers;
- participate at meetings held within the Company on issues that fall under the scope of activities and responsibilities of the Audit Committee;
- appoint advisors to the Audit Committee on a permanent basis or case by case if needed;
- obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfillment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent audit and control function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). In July 2017, the Management Board adopted the updated Internal Audit Charter, a strategic document for internal audit performance which defines framework and main principles necessary for the work of internal audit function in HT d.d. and HT Group.

Main tasks of Corporate Internal Audit as defined in the Internal Audit Charter are evaluating whether:

- Risks relating to the achievement of HT d.d. and HT Group's strategic objectives are appropriately identified and managed.
- The actions of HT d.d. and HT Group's officers, directors, employees and contractors are in compliance with HT d.d. and HT Group's policies, procedures, and applicable laws, regulations and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with

the policies, procedures, laws and regulations that could significantly impact HT d.d. and HT Group.

- Information and the means used to identify, measure, analyze, classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently and protected adequately.

Significant company shareholders

As at 31 December 2017, significant Company shareholders are as follows:

- Deutsche Telekom Europe B.V. is the majority shareholder with a 51 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding №2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).
- The Croatian War Veterans' Fund owns 6.7 per cent of shares.
- Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) of the Republic of Croatia (a legal successor to the Government Asset Management Agency) owns 2.9 per cent of shares of the Company.
- The remaining 39.4 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds are investors with the largest shareholding among the private and institutional investors. As at 31 December 2017, Raiffeisen Mandatory Pension Funds (category A and category B) owned 9.1 per cent shares of the Company.

An up to date list of the top ten shareholders of the Company can be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser).

Mr. Davor Tomašković, President of the Management Board of Hrvatski Telekom d.d., owns 1,069 shares in total; Mr. Boris Batelić, Management Board Member of Hrvatski Telekom d.d., owns 1 share in total; Mr. Saša Kramar, Management Board Member of Hrvatski Telekom d.d., owns 219 shares in total; Mr. Boris Drilo, Management Board Member of Hrvatski Telekom d.d., owns 205 shares in total and Mr. Damir Grbavac, Supervisory Board Member of Hrvatski Telekom d.d., owns 69 shares in total.

Appointment of the management board, its functions and amendments to the articles of association

The Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. The Management Board consists of between five and seven members. Current composition of the Management Board includes seven positions: the President of the Management Board (CEO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Information Officer (CTIO), MB Member and Chief Human Resources Officer (CHRO) and Member of the Management Board and Chief Customer Experience Officer (CCO).

The Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services, organized into two business units, Business and Residential.

The Management Board needs prior approval from the Supervisory Board for the proposal of any amendments to the Articles of Association at the General Assembly.

Authorities of the management board members

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board has responsibility for managing the business affairs of the Company. It is obligated and authorized to perform all the activities and to pass all the resolutions that it considers necessary to successfully manage the business affairs of the Company, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions.

The Company may be represented by any two members of the Management Board jointly.

The Management Board was authorized by respective General Assembly decisions from 2009, 2010, 2011 and 2016 (authorization is valid until 21 April 2021) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions.

The Management Board adopted in 2012 the Treasury share buyback program for the purpose of realization of the long-term incentive plans for senior management, Matching Share Plan, applicable at that time only to the President of the Management Board, as member of the business leaders group (BLT) within Deutsche Telekom Group.

The Company acquired at the Zagreb Stock Exchange 1,931 Company shares in May 2012 and 2,000 shares in May 2013, for the purpose of implementation of the above described Matching Share Plan.

Matching Share Plan initiated in 2012 has finished in 2016 and the Matching Share Plan initiated in 2013 has finished in 2017. Pursuant to the terms and conditions for participation in the plan, given the fact that his employment at HT ended on 31 December 2013 and he continued working for DT Group until 31 December 2015, Mr. Ivica Mudrinić became entitled to one half of the total number of Company shares purchased in the year 2012 (in 2012 he purchased 1,931 HT shares), and to one fourth of the total number of Company shares purchased in the year 2013 (in 2013 he purchased 2,000 HT shares). In line therewith, in December 2016, 965 Company shares were transferred, and in December 2017 500 Company shares were transferred to the custodian account of Mr. Mudrinić. Following this last transfer, Share Matching Plan is being closed, and the Company has fulfilled in total all its obligations towards Mr. Mudrinić pursuant to the said Plan.

As already published, in June 2017 the Management Board has passed a decision on launching the Share Buyback Programme, in line with the above stated authorization by the General Assembly, that was to start on 3 July 2017 and is to last until 20 April 2021. The maximum of 2,500,000 shares is scheduled for acquisition during the duration of the Programme, whereas the maximum funds that are assigned to the Programme amount to HRK 500,000,000.00.

Until 31 December 2017, the Company acquired at Zagreb Stock Exchange in total 216,005 Company shares, representing 0.26% of the Company's issued share capital. For the said acquisition of Company shares, the Company paid out an equivalent value of HRK 37,569,685.53.

Taking into account the number of Company shares remaining following the closing of the above described Share Matching Plan, HT holds in total 218,471 Company shares as at 31 December 2017.

The composition and functions of the supervisory board

The Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Workers' Council as a representative of the Company's employees. The Supervisory Board is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board.

The Supervisory Board established the Compensation and Nomination Committee and the Audit Committee.

ECONOMIC ENVIRONMENT

ECONOMIC ENVIRONMENT

HT Group's strong performance delivered in 2017

HT Group has successfully responded to market challenges and continued to lead the Croatian telecommunications market across all business segments in 2017. Differentiation of HT Group offers and positioning of brands contributed to strengthen position on the market. In addition, HT position improved on regional telco market after acquiring majority shareholding in Crnogorski Telekom AD Podgorica.

Economic background

Expected GDP yearly growth to reach 3.1% in 2017
Croatia's economic yearly growth is expected to reach 3.1% in 2017. Private consumption made the highest contribution to the overall GDP growth, as well as increasing exports of goods. Over the summer months industrial production and retail trade volumes grew buoyantly. Tourism boomed, with arrivals and overnight stays increasing at double-digit rates.

The average registered unemployment rate of 12.5% in the first eleven months of 2017, a decrease of 2.5 percentage points from the same period in 2016, is the result of the increased employment as well as constant emigration trend.[1]

Economic recovery, coupled with the tax reform and the increase in wages of the entire public sector led to a rise in wages in 2017. In the period from January to October 2017 the average monthly net wage amounted to 5,966 HRK that is growth by 4.3% in real terms compared the same period of 2016.[1] Moderate inflation is expected in 2017 with growing average yearly consumer price index (CPI) by app. 1.2% in 2017.[1]

[1] Sources: Croatian Bureau of Statistics, "Economic Trends and Forecasts No. 3", Croatian National Bank, December 2017, European Commission's autumn forecast for Croatia, November 2017

CROATIAN MARKET OVERVIEW

Market consolidation, further network investments and increased user demand for mobile data to continue

The following consolidation activities in the Croatian telecommunications market have occurred in 2017: Vipnet's acquisition of Metronet in February 2017 and Optima Telekom's acquisition of H1 Telekom in June 2017. The regulator also approved a request by Hrvatski Telekom to extend its management control over Optima Telekom for additional three years.

The Croatian mobile market has been saturated with estimated mobile SIM penetration rate at 118.2% at the end of 2017. The Company maintains leading market position with estimated mobile SIM market share of 46.2%.

Mobile market has been determined by strong competition and regulatory measures that impact mobile revenue. Roam Like at Home rules entered into force on 15 June 2017. EU citizens pay domestic prices, irrespective of where they are travelling in the EU for phone-calls, SMS and mobile internet.

All three mobile operators offer 4G services with favorable data packages and attractive gadgets that additionally encourage usage of data. As a result of additional mobile data and the increasing popularity of online messaging services, the total number of sent SMS messages continued to decrease on an annual basis by 8.0% in the first nine months of 2017, while total mobile market minutes of use (MOU) grew by 2.0% in the same period.[2] Total broadband traffic grew year-on-year by 36.9% in the first nine months of 2017.[2]

The negative trend in usage of fixed voice services resulted with a decline of originating voice minutes by 6.4% yoy in the first nine months of 2017. [2]

The Croatian fixed broadband market continued to grow at a yearly rate by 6.0% reaching 1.09 million fixed broadband connections at the end of September 2017. An increase of fixed high-speed broadband connections, counting more than 20% of total fixed broadband connections, was a result of further investments in network infrastructure by fixed operators and the increased user demand for high-speed internet services.[3]

HT Group has set a strong focus on further development of the network infrastructure, increasing broadband access capacity and availability to maintain a leading position in Croatia. HT Group had 624 thousand of broadband access lines at the end of December 2017.

The Croatian Pay TV market continues to grow in the first nine months of 2017, reaching 818 thousand customers at the end of September 2017 (growth by 4.4% on yearly level).[4]

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 2017 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) was 131 thousand at the end of 2017 that is decrease of 2% compared to the same period last year. Number of broadband wholesale customers decreased compared to previous period due to higher usage of operators' own infrastructure. The number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) decreased as a result of high churn and migration to broadband services (NBSA) and operators' own infrastructure. That resulted with 135 thousand of ULL access and 63 thousand of WLRs at the end of December 2017.

ULL price increased from January 1st, 2017, based on HAKOM's approval. Also, prices for broadband wholesale services were amended from January 1st, 2017. Main elements of price changes for broadband services were decrease of access price for speeds up to 30 Mbps, increase of voice and TV channel price and introduction of separated access price for speed above 30 Mbps.

According to HAKOM's decision, national mobile termination rate decreased from July 1st, 2017, while fixed origination and termination rates increased.

Full Roam Like at Home regulation was implemented from June 15th, 2017 which resulted in significant increase of traffic generated by foreign visitors (data traffic growth was 330%).

IT market

The Croatian IT market is expected to slow down the growth in 2017 (0.3% yoy) primarily driven by Hardware decline (-3.8%), while IT services and Software are expected to further grow (4.7% and 5.6% respectively)[5]

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

Energy market

Compared to previous year buying price on energy market increased significantly which led to cost increase. Also, at the end of 2016, Croatian Government ceased a part of "Renewables Law" which sets suppliers free of obligation to buy green energy at premium price. That decision is manifested as an additional cost for HT. Unlike all other energy suppliers, who are running business as primary activity, HT is seeking to exploit synergy effect from telco-energy convergent proposition.

[2] Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3/2017
[3] Source: Croatian Post and Electronic Communications Agency
[4] Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3/2017
[5] Source: IDC Adriatics, June 2017

REGULATORY OVERVIEW

Entry into force of new interconnection fees

New interconnection fees for the wholesale fixed origination (FOR), wholesale fixed termination (FTR) and wholesale mobile termination rate (MTR) as defined by decision of HAKOM, started to apply from July 1st, 2017. New FOR is determined in the amount of 1.01/0.50 lipa/min (peak/off-peak; 0.135/0.067 €c/min), new FTR in the amount of 0.88/0.44 lipa/min (peak/off-peak; 0.117/0.059 €c/min) while new MTR in the amount of 4.70 lipa/min (0.628 €c/min). Described changes of interconnection fees are not expected to have significant impact on business.

Introduction of the additional wholesale fee for WLR service

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

Amendments to the Electronic Communications Act (ECA)

On July 22nd, 2017, the Act on Amendments to the ECA (Official Gazette No. 72/17) entered into force, except certain provisions that will enter into force on January 1st, 2018.

Among other, amendments to the ECA primarily determine legal framework for the direct effect of the Regulation (EU) 2015/2020 on roaming and net neutrality, as well as for the complete implementation of the Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks. Thus, amendments determine legal framework for the right of access to the physical infrastructure within buildings and equipment of new buildings with access point and infrastructure adjusted to high-speed electronic communications networks. Also, amendments determine conditions for building of high-speed electronic communications networks with public funds. Furthermore, the need for the introduction of the right of operators to exchange necessary data on end customers was recognized.

Besides aforementioned, the maximum amount of prescribed penalties for the particularly serious violations of the ECA has been raised from 5% to 10% of the total annual gross revenue earned by providing electronic communications networks and services.

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

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

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

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

Prolongation of temporary management rights for the company OT-Optima Telekom d.d.

On June 14th, 2017 HT received the Decision of the Croatian Competition Agency (hereinafter: Agency) by which the duration of temporary management rights of the company OT-Optima Telekom d.d. (hereinafter: Optima) for HT are prolonged for an additional three-year period, that is, until 10th July 2021. The Agency has also reached the decision on conditional approval of the merger pursuant to the Merger Agreement of the company H1 TELEKOM d.d. and Optima. Consequently, on 1st of August, 2017, the Commercial Court issued a resolution on the merger of H1 Telekom d.d. with Optima Telekom d.d.

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

On December 15th, 2017 the relevant Ministry of the Sea, Transport and Infrastructure adopted amendments to the Ordinance on payment of fees for the right of use of addresses, numbers and radio-frequencies (hereinafter: Ordinance on fees), by which it imposed reduction of the annual fee for use of radio-frequency spectrum in mobile networks by one third of the current fee. Amendments to the Ordinance on fees entered into force on December 19th, 2017. New decreased fee will be applicable as from the next annual billing period after the expiry of the period for which the fee has already been paid..

Positive steps towards friendlier FTTH roll-out environment

In November 2017, HAKOM opened public consultation on the proposal to put out of force the existing Ordinance on fiber-optic distribution networks, which prescribes strict technological rules of roll-out of FTTH networks in Croatia. HAKOM explains its proposal by the opinion that this ordinance represents a significant regulatory obstacle for FTTH roll-out in Croatia. In its comments, HT supported reduction of regulatory burden, however, noted that it would be appropriate to keep the obligation of public announcement of FTTH investment as well as the symmetrical obligation to open FTTH networks for use by other operators. Bearing in mind that Croatia lags behind the EU average in achievement of Digital Agenda for Europe (DAE) targets, and since Croatia is one of few countries with strict regulatory regime on FTTH network roll-out, further regulator's activities on reducing regulatory obstacles in FTTH roll-out could be expected in 2018.

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

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

Amendments to the Margin Squeeze Methodology

On November 30th, 2016, HAKOM adopted amendments to the Margin Squeeze Methodology (MSQ) that applies to HT's retail prices for fixed network access, fixed broadband access and IPTV services. As a follow up to the amended MSQ methodology, in December 2016, HT delivered requested data to HAKOM for the purpose of updating the MSQ model. On January 18th, 2017, HAKOM adopted the decision regarding the first phase of alignment with the new MSQ model. In February 2017, HAKOM initiated the second phase of alignment with the MSQ methodology which is expected to be finalized in Q1 2018.

Roaming regulation

With effect from June 15th, 2017, regulated retail roaming services in the EU are based on the domestic retail prices (Roam Like at Home principle). HT implemented Roam Like at Home rules as of June 15th, 2017, as well as fair use policy in accordance with the roaming regulation.

Introduction of Roam like at Home rules has resulted in a multiple increase in roaming services usage. Data usage by HT's customers in roaming shows highest growth of approx. 850% in comparison to same period last year followed by voice service usage with 270% growth. Traffic generated by foreign mobile networks customers on HT mobile network significantly increased as well, resulting with 65% growth of voice traffic and 330% more data traffic than last year.

CHANGES IN REPORTING

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

In January 2017 HT acquired Crnogorski Telekom that is consolidated in HT Group financial results starting with 2017. Operational highlights that relate to achievement of the main non financial key performance indicators on the following pages are presented without consolidation impact of Crnogorski Telekom in 2017. Impact of Crnogorski Telekom on main non financial key performance indicators is presented in separate chapter on Page 38.

2017 results include contribution of H1 Telekom d.d. after approval of merger process that resulted with consolidation of H1 Telekom d.d. into the OT – Optima Telekom d.d. For segment reporting purposes contribution of H1 is included in segment Optima consolidated.

The Group is required to report on non-financial information, but has applied the exemption from preparing such reporting as allowed by Croatian accounting act article 24a paragraph 7. The Parent company and subsidiaries are included in the consolidated non-financial reporting of Deutsche Telekom AG.

In 2017, HT Group has changed the presentation of revenue from services to affiliated companies (e.g. provision of administrative services and shared service centers); from other operating income to revenue. Previous year 2016 was reclassified in amount of HRK 15 million in order to reconcile the presentation of comparable period data with data presented in 2017.

SUMMARY OF KEY FINANCIAL INDICATORS

Income statement in HRK million	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Revenue	6,984	7,756	7,125	11.0%	2.0%
Mobile	2,821	3,305	2,988	17.2%	5.9%
Fixed voice	953	927	843	-2.8%	-11.5%
Broadband & TV	1,315	1,439	1,318	9.4%	0.3%
Fixed wholesale	365	369	347	1.0%	-4.9%
Other fixed	742	835	779	12.5%	4.9%
System solutions	677	731	698	8.0%	3.2%
Miscellaneous	112	151	151	34.7%	34.7%
EBITDA before exceptional items	2,821	3,138	2,918	11.2%	3.4%
Exceptional items	85	151	144	78.0%	69.4%
EBITDA after exceptional items	2,736	2,986	2,774	9.1%	1.4%
EBIT (Operating profit)	1,239	1,118	1,066	-9.8%	-14.0%
Net profit after non controlling interests	934	863	833	-7.5%	-10.8%
EBITDA margin before exceptional items	40.4%	40.5%	41.0%	0.1 p.p.	0.6 p.p.
EBITDA margin after exceptional items	39.2%	38.5%	38.9%	-0.7 p.p.	-0.2 p.p.
EBIT margin	17.7%	14.4%	15.0%	-3.3 p.p.	-2.8 p.p.
Net profit margin	13.4%	11.1%	11.7%	-2.2 p.p.	-1.7 p.p.

Balance sheet	At 31 Dec 2016	At 31 Dec 2017 with CT	At 31 Dec 2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Total non current assets	8,889	10,385	10,132	16.8%	14.0%
Total current assets	5,566	5,353	4,991	-3.8%	-10.3%
TOTAL ASSETS	**14,455**	**15,738**	**15,122**	**8.9%**	**4.6%**
Total issued capital and reserves	12,046	12,573	12,325	4.4%	2.3%
Total non current liabilities	561	737	695	31.4%	23.8%
Total current liabilities	1,847	2,429	2,102	31.5%	13.8%
TOTAL EQUITY AND LIABILITIES	**14,455**	**15,738**	**15,122**	**8.9%**	**4.6%**

Cash flow	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Net cash flow from operating activities	2,075	2,691	2,406	29.7%	16.0%
Net cash flow from investing activities	-1,742	-1,215	-1,060	30.2%	39.1%
Net cash flow from financing activities	-833	-981	-909	-17.8%	-9.2%
Cash and cash equivalents at the end of period	**2,676**	**3,152**	**3,095**	**17.8%**	**15.6%**

CAPEX	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
CAPEX	1,608	1,885	1,745	17.2%	8.5%
CAPEX / Revenue ratio	23.0%	24.3%	24.5%	1.3 p.p.	0.1 p.p.

Number of employees	At 31 Dec 2016	At 31 Dec 2017 with CT	At 31 Dec 2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Number of employees (FTEs)	4,427	5,110	4,588	15.4%	3.6%
Residential segment	**2016**	**2017 with CT**	**2017 wo CT**	**% of change A17 with CT/A16**	**% of change A17 wo CT/A16**
Revenue	3,750	3,754	3,754	0.1%	0.1%
Contribution to EBITDA before exceptional items	**2,565**	**2,546**	**2,546**	**-0.7%**	**-0.7%**
Business segment	**2016**	**2017 with CT**	**2017 wo CT**	**% of change A17 with CT/A16**	**% of change A17 wo CT/A16**
Revenue	2,793	2,883	2,889	3.2%	3.4%
Contribution to EBITDA before exceptional items	**1,373**	**1,329**	**1,332**	**-3.2%**	**-3.0%**
Network & support functions	**2016**	**2017 with CT**	**2017 wo CT**	**% of change A17 with CT/A16**	**% of change A17 wo CT/A16**
Contribution to EBITDA before exceptional items	**-1,355**	**-1,236**	**-1,236**	**8.8%**	**8.8%**
Segment optima consolidated	**2016**	**2017 with CT**	**2017 wo CT**	**% of change A17 with CT/A16**	**% of change A17 wo CT/A16**
Revenue	441	483	483	9.5%	9.5%
Contribution to EBITDA before exceptional items	**239**	**275**	**275**	**15.4%**	**15.4%**
SEGMENT CRNOGORSKI TELEKOM CONSOLIDATED	**2016**	**2017 with CT**	**2017 wo CT**	**% of change A17 with CT/A16**	**% of change A17 wo CT/A16**
Revenue	n/a	636	n/a	n/a	n/a
Contribution to EBITDA before exceptional items	**n/a**	**223**	**n/a**	**n/a**	**n/a**

BUSINESS REVIEW

OPERATIONAL HIGHLIGHTS
MAJOR ACHIEVEMENTS
MOBILE TELECOMMUNICATIONS
FIXED TELECOMMUNICATIONS

OPERATIONAL HIGHLIGHTS

HT Group Mobile KPI's without Crnogorski Telekom

Key operational data	2016	2017	% of change A17/A16
Mobile customers in 000			
Number of customers	**2,234**	**2,244**	**0.5%**
- Prepaid	1,075	985	-8.4%
- Postpaid	1,159	1,260	8.7%
Minutes of use (MOU) per average customer	**206**	**216**	**4.8%**
Blended ARPU (monthly average for the period in HRK)	**76**	**77**	**0.9%**
- Prepaid	42	43	1.9%
- Postpaid	110	106	-3.3%
SAC per gross add in HRK	**105**	**109**	**3.9%**
Churn rate (%)	**2.8**	**2.5**	**-0.3 p.p.**
Penetration (%) [1]	**114**	**118**	**4.3 p.p.**
Market share of customers (%) [1]	**47**	**46**	**-0.8 p.p.**
Smartphone customers (%) [2]	**57**	**58**	**1.0 p.p.**
Smartphones sold (%) [3]	**79**	**84**	**5.0 p.p.**

[1] Source: internal estimation of the competitors customers for EO December 2017
[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)

HT Group Fixed KPI's without Crnogorski Telekom

Key operational data	2016	2017	% of change A17/A16
Fixed mainlines in 000			
Fixed mainlines - retail [1]	924	875	-5.4%
Fixed mainlines - wholesale (WLR - wholesale line rental)	83	63	-24.2%
ARPU voice per user (monthly average for the period in HRK) [2]	84	78	-6.9%
IP mainlines/customers in 000			
Broadband access lines - retail [3]	618	624	1.0%
Broadband access lines - wholesale [4]	134	131	-2.3%
TV customers	401	417	4.0%
Broadband retail ARPU (monthly average for the period in HRK)	122	117	-3.8%
TV ARPU (monthly average for the period in HRK)	82	81	-1.4%
Wholesale customers in 000			
ULL (Unbundled Local Loop)	148	135	-9.2%

1 Includes PSTN, FGSM,old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded
2 Payphones excluded
3 Includes ADSL,VDSL, FTTH and Naked DSL
4 Includes Naked Bitstream + Bitstream

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

MAJOR ACHIEVEMENTS

Efforts taken to maintain position in the market

- HT managed to keep the leading mobile market share with stable estimated portion of 46.2%
- The Croatian fixed broadband and TV market continued to grow, HT recording grow of broadband customer base by 1.0% and TV customer base by 4.0% in comparison to previous year.
- HT's Magenta1 convergent offer achieved 118 thousand of consumer households while in business area there are 10 thousand of Magenta1 active accounts that position HT as One-Stop-Shop on market
- Under influence of EU RLH regulation, in 2017 HT visitor revenue increased 69.4% with visitor data traffic increase of 330.3% in comparison to the same period previous year
- In Montenegro, in 2017 visitor revenues grew 47.9% yoy due to extraordinary touristic season with roamers from wide range of countries. Magenta1 achieved over 14% of consumer households, while in business area there are more than 1.000 active accounts

The main financial KPIs growing under influence of Crnogorski Telekom

- Revenue is above 2016 by HRK 771 million or 11.0%. Excluding CT contribution of HRK 630 million, revenue above by HRK 141 million or 2.0%. Excluding impact of H1 Telekom d.d. revenue has grown 1.5%.
- EBITDA is above 2016 by HRK 316 million or 11.2%. Excluding CT contribution of HRK 220 million, EBITDA is above by HRK 96 million or 3.4%. Excluding impact of H1 Telekom d.d. EBITDA has grown 2.8%.
- Capex realization is above 2016 by HRK 277 million or 17.2%. Excluding CT contribution of HRK 140 million, Capex is above by HRK 137 million or 8.5%.

Prerequisites for growth in 2018

- Transformation program Horizont 2017 achieved planned results in cost savings, customer experience, simplification product portfolio, process optimization, defined B2B Growth Strategy and launch of new services. HR area implemented new Performance Management Regulations in shops, defined desired HT corporate culture values and developed action plan for improving HT culture.
- After 3 years of success, transformation program Horizont is closed. In 2018 new Skyline program has been launched with focus on growth.
- Several synergy projects were launched in Crnogorski Telekom with positive impact in 2017. Sales productivity program increased average number of sales transactions in Shops by 24% yoy. Synergy initiatives improved debt collection, reduced direct cost and positively impacted customer satisfaction. Scoping phase for establishing Revenue Assurance Shared Service Center is completed.
- Share Buyback Program has started on 3 July 2017 and it will last until 20 April 2021. Acquired own shares in the Program are to be withdrawn without reducing the issued share capital by which the portion of the remaining shares will be increased. The number of redeemed shares amounted 216,005 on 31 December 2017.

Strong financial performance is enabling significant investment in network

- Significant speed increase in optical network - FTTx access is enabled for 374 thousand households while NGA access availability increased to 58% of Croatian households
- Speed in mobile network increased even with significant increase of mobile traffic - 79% traffic increased during tourist season
- Increasing capacity and stability in the transport network – IP core network 4x increased capacity, 77% of aggregation network modernized, increased stability over 87%
- HT finished 2017 with P3 award proving the best mobile network in the voice and data segment in Croatia.
- In Montenegro country wide BB coverage further expanded - VDSL coverage reached 32% of households, FTTH reached 35%. 4G "outdoor" coverage reached 95% and 4G "indoor" population coverage increased up to 65%.
- Third year in a row Crnogorski Telekom won "Best in test" P3 certificate (Mobile Benchmark Montenegro 2017)

MOBILE TELECOMMUNICATIONS

Mobile customer base increased by 0.5%, to 2,244 thousand customers at the end of 2017 in comparison to 2016 mainly as a result of postpaid overperformance.

Number of postpaid customers was higher by 8.7% than at the end of 2016 as a result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns resulting with great overall performance.

HT's unique concept of premium customer experience and benefits called Magenta1 offers HT private and business customers numerous free benefits such as TV packages, fastest internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive smartphones and gadgets. Magenta1 Christmas offer continued through beginning of 1Q 2017 and was further improved with the most powerful game console in the world at the moment - Playstation 4 PRO, and other attractive handsets for special prices. Mid-September HT launched new Magenta1 campaign with main message "In Magenta1 football is No. 1" and Goran Ivanišević and his son having key roles in the commercial. Focus on premium and exclusive sport content, 50% discount on MAX3 Premium package in the first year of contract and attractive gadgets are just some of the attractive benefits that customers can get by joining Magenta 1 world. During the Christmas and New Year period HT launched new Magenta1 Christmas campaign with main message: "In Magenta 1 everyone gets double amount of minutes, SMS and GBs". Offer was further enriched by attractive gadgets like Huawei Y6 2017 with 50% discount, Huawei P 10 and P10 Lite and Samsung S8 & J7.

In Q4 HT launched new postpaid portfolio with value heavy offers focused on content and data to fully utilize network leadership – 4G with the highest speed up to 350 Mbit/s in all new postpaid tariffs. All tariffs include MAXtv To Go mobile application, one application with zero rate and possibility of unlimited access to entertainment content without spending traffic included in tariff package. First tariff fully specialized for young which was launched in April was further enriched and promoted in Q4. The greatest benefit is unlimited Youtube, Netflix, HBO GO Pickbox and MAXtv To Go via Stream On service without the usage of 6 GB included in the tariff plan. Young can also choose one additional app that will not spend the plan traffic and which can be changed each month free of charge.

Offer includes a broad range of best innovative gadgets and 24/7 customer support on social networks. Furthermore, a prize competition thorough dozivivise.hr has been launched in which HT takes the most creative ones to an unforgettable journey to Dubai and Abu Dhabi, exciting sailing trip and other adventures during the whole year. To offer our customers more financing options we introduced handset sales model on 36 monthly installments.

HT and its partners decided to launch the campaign "Šeraj pozitivu, blokiraj negativu" [Share the positivity, block the negativity], which enables parents and children to use new technologies in a safer way. In order to help protect the children, as part of new TV campaign "Ista ponuda za sve" HT introduced a new product "Myki watch" available for HRK 1 with MCD 24 in all tariffs. This enables customers to be with their kids even when they are not together through connected MyKi watch and mobile app for tracking.

Throughout the most of the year HT continued with attractive mobile offer for elderly, 200 MIN/SMS towards all networks, 10 MB (possibility of activating Internet option 500 MB for HRK 20) and without call set up fee for only HRK 54 per month. Offer was accompanied by simplified handsets easy to use and digital blood pressure gauge.

End of August Samsung has presented the new generation Smartphone - Samsung Galaxy Note 8. Furthermore, iPhone 8 and 8S Plus are available in HT already as of September 29th and all HT customers were able to buy new iPhone X already in early November.

Number of prepaid customers was 8.4% lower than in 2016 due to overall decline of prepaid market, less tourists using prepaid due to Roam like at home regulation and strong competition. 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.

In a media campaign Simpa introduced MaxTvToGo value add service with the best sport and movies content, starting from monthly fee of HRK 25 without contract obligation. The users who activate this option during promo period by August 31st also get HBO premium package with top quality series and movies at no extra cost. As of mid-February, Simpa "Zmajska" option is even bigger and more flexible; it includes 5.000 MB/MIN/SMS which users can use as they want for HRK 69 per month.

In Q4 HT launched new media campaign for Simpa "Hibrid "with main message "Best of both worlds". New "Hibrid" tariff is unique offer on the market that combines benefits of Postpaid and Prepaid world – enables cost control and top up by vouchers but also possibility of buying attractive handsets on installments. This also enables Simpa customers being part of Magenta1 and enjoying all the benefits included in Magenta1 world.

Bonbon continued with bringing its customers additional value, this time through 20GB package for all postpaid customers which can be purchased alone or combined with current minutes and/or SMS packages while earning additional discounts. Throughout the year bonbon presented its customers popular music service Deezer. Promo offer presented in media campaign includes 2 months of enjoying in favorite music for free for all activations until end of year. Bonbon agents available 0-24h , "Rollover" which enables its customers to transfer unused units (MB, MIN, SMS) into next month when package automatically reactivates and packages which include 6GB of Internet with 4G speed remain one of the main benefits that Bonbon gives to all their customers. Furthermore, all customers are able to set their own combination of smartphones/gadgets with additional discounts and can also set their spending limit according to their possibilities.

Stream On service, unique in the Croatian and European market, allows users to watch entertainment content on a mobile phone without spending data from their plan and includes unlimited streaming of HBO GO, Pickbox, Youtube, Netflix and from recently MAXtvToGo.

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

Beginning of May Iskon launched its first mobile tariff which works within HT's 4G network. Tariff doesn't include a contract obligation and is only available to Iskon's fixed services users. By introducing the new tariff Iskon become an one stop shop for their users.

Minutes of usage per average customer in 2017 increased by 4.8% compared to 2016 and blended ARPU increased by 0.9% as a result of prepaid market recovery.

FIXED TELECOMMUNICATIONS

Fixed line

By the end of 2017, total fixed mainlines of 875 thousand were by 5.4% lower than at the end of 2016. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro - and reactive churn prevention offers and activities.

To mitigate the on-going decline promo offer for fixed line was introduced offering phone connection for HRK 1 with 24 MCD accompanied by new attractive fixed line tariffs.

HT continued with attractive offer for elderly, flat Internet and fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month. Offer was further accompanied by tablet Lenovo Tab 3-850F WIFI for only HRK 99 with special simplified applications and screen for easy use. Another offer for elderly introduced in 2016 continued through 2017, 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 6.9% compared to 2016 as a result of mentioned general market trends.

Broadband

At the end of 2017 broadband customer base was higher by 1.0% in the comparison to the end of 2016 reaching 624 thousand, due to Magenta1 and elderly proposition offers results.

At the same time broadband retail ARPU was 3.8% below 2016 at the level of HRK 117 due to stronger competition and aggressive offers in the market.

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

HT continues with push of Ultra MAX packages on FTTH. The offer was accompanied by attractive MyKi smartwatch for children security for only HRK 1, discounts for energy service and MAXtv for all new Ultra MAX customers for HRK 1 for first 9 months of usage with MCD 24. These packages are based on FTTH technology which enables ten times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones.

To ensure higher Internet speeds to all low speed Broadband customers for only HRK 10 per month HT implemented combined fixed and mobile technology in one product and one device – Hybrid access.

Magenta1 offers launched for Business customers, including fixed and mobile customer tailored tariffs, cloud and security services, premium service, and maximum speeds is the best convergent offer in the market.

TV

TV customer base, showing 4.0% increase from 2016, is at the level of 417 thousand as a result of continuous service and program offer improvements through premium content (additional program packages, video on demand etc.) and enriched exclusive TV content. TV ARPU is at level of HRK 81 and it is slightly lower in comparison to 2016 by 1.4%.

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

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

Wholesale

At the end of 2017 there were 135 thousand of active ULL lines, which was lower by 9.2% in comparison to the same period last year. Number of ULL lines decreased due to focus of alternative operators to broadband services, usage of own infrastructure and overall decline of fixed single voice market.

Broadband wholesale access lines (BSA and naked BSA lines) reached 131 thousand at the end of 2017, which was 2.3% below last year realization with driver being higher usage of operator's own infrastructure.

Number of WLR lines at the end of 2017 decreased by 24.2% compared to previous year and reached 63 thousand as a result of declining voice market and migration to broadband services.

From January 1st, 2017, ULL price is increased based on HAKOM approval. Also, prices for broadband wholesale services were amended from January 1st, 2017. Main elements of price changes for broadband services are decrease of access price for speeds up to 30 Mbps, increase of voice and TV channel price and introduction of separated access price for speed above 30 Mbps. From July 1st 2017, based on HAKOM decision national mobile termination rate was decreased (from 6.3 lp/min to 4.7 lp/min), while fixed origination and termination rates were increased (peak termination rate increased from 0.6 lp/min to 0.88 lp/min).

In 2017 successful sales continued in spite of competitive domestic wholesale market of data and IP services. Especially successful was sale of IP upstream services with growth of 17.0% in volume comparing to the same period last year.

In the international wholesale market total capacity of sold IP increased by 17.2% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2017, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 65.1% more voice originating minutes and 330.3% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 192.8% more roaming voice traffic in foreign countries and 573.0% more data traffic. During 2017, additional 4G (LTE) international roaming services with foreign partners were set up reaching 149 4G worldwide roaming interconnections in total.

Another significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminating in HT mobile network increased by 38.5% in 2017 compared to the same period last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 13.9% and from HT mobile network users increased by 63.7%.

System solutions

System solutions revenue is continuously growing in all portfolio segments. Strategic focus remains on Cloud and Managed Solutions. The strongest growth achievement is in the area of customized ICT solutions.

Second flight of Magenta 1 Business Communication campaign goal was to further position HT as One-Stop-Shop for business customers. Special communication focus was on new Fiscalisation proposition.

Combis business is continuously growing in all portfolio segments. Strategic focus and biggest future grow niches remains Cloud, Security and Managed Services. The strongest growth achievement in 2017 is the area of customized ICT solutions.

Combis was heavily growing in number of customers and ensured grow in new business niches and international market outside of the region. Business horizontals and verticals such as Cloud building and migration, virtualization, network security, proprietary products, application development and digital tourism represent very solid ground for stable growth.

Energy

Revenues from energy were higher by HRK 39 million or 37.9% when compared to 2016 due to higher average number of business customers by 21.8% in spite of lower average base of residential customers by 10.2%. Strong growth is present in business segment in customer base as well as in revenue, with further focus on Telco-energy convergent proposition to position HT as One-Stop-Shop for business customers.

DEVELOPMENT OF THE FINANCIALS

REVENUE

Total consolidated revenue increased by HRK 771 million or 11.0% to HRK 7,756 million in 2017 in comparison to 2016. Crnogorski Telekom contributed with HRK 630 million. Excluding Crnogorski Telekom, revenue is above 2016 by HRK 141 million or 2.0%. Increase is driven by higher mobile revenue (HRK 168 million or 5.9%), miscellaneous revenue (HRK 39 million or 34.7%) and higher system solution revenue (HRK 22 million or 3.2%), that compensated decline in fixed revenue (HRK 87 million or 2.6%).

Optima Telekom contribution to HT Group was above by HRK 15 million in comparison to 2016 and amounted to HRK 309 million in 2017. Contribution consisted of HRK 483 million of Optima Telekom third party contribution (2016: HRK 441 million) that was presented in the whole amount under fixed other revenue and HRK 173 million of inter-company relations that decreased mainly fixed wholesale revenue (2016: HRK 147 million).

Contribution of subsidiaries in Group revenue in 2017 amounted for Iskon HRK 378 million (2016: HRK 386 million) and for Combis HRK 473 million (2016: HRK 468 million).

Mobile revenue

Mobile revenue rose by HRK 484 million or 17.2% to HRK 3,305 million in 2017 in comparison to 2016. Crnogorski Telekom contributed with HRK 317 million. Excluding Crnogorski Telekom, mobile revenue is above 2016 by HRK 168 million or 5.9%. The growth resulted mainly from higher handset revenue (HRK 94 million or 25.4%), visitor revenue (HRK 82 million or 69.4%) and postpaid revenue (HRK 36 million or 2.4%) while prepaid revenue decreased (HRK 30 million or 5.3%) as well as other mobile revenue (HRK 14 million or 5.0%).

From total deviation excluding Crnogorski Telekom, HRK 83 million or 4.4% came from residential segment, while business segment contributed with HRK 84 million or 8.9%.

Visitor revenue increased due to higher usage driven by more data traffic than in 2016 by 330.3% and supported with Roam Like at Home regulation.

Handset revenue growth was driven by the increased sales volume of smartphones, higher number of contract prolongations taking handsets and higher share of more valuable handsets mainly in residential segment additionally supported by growing convergent offers.

Postpaid revenue increased primarily due to higher number of customers by 8.7%, under influence of overall push of successful and attractive tariffs such as Magenta1 and Young as well as successful Bonbon campaign resulting with great overall performance. Postpaid ARPU is below 2016 by 3.3% influenced by increased share of M2M subscribers and roaming regulation as well as more free minutes included in bundle offers.

Prepaid revenue decrease was result of decline in customer base by 8.4% compared to 2016. Decrease was driven by overall prepaid market decline and strong competition. Continuous efforts are taken in Simpa and Bonbon to mitigate on-going decline. Market recovery initiatives resulted with higher prepaid ARPU by 1.9% in comparison to 2016.

Other mobile revenue decreased mostly due to lower revenues from interests and dunning fees, lower non recurring fees and lower discounts in wholesale segment.

Fixed revenue

Fixed revenue increased by HRK 194 million or 5.7% to HRK 3,569 million in 2017 in comparison to 2016. Crnogorski Telekom contributed with HRK 281 million. Excluding Crnogorski Telekom, fixed revenue decreased by HRK 87 million or 2.6%. The fall resulted mainly from lower voice revenue (HRK 110 million or 11.5%), wholesale revenue (HRK 18 million or 4.9%) and broadband revenue (HRK 9 million or 1.0%), but it was partially compensated by higher other revenue (HRK 36 million or 4.9%) and TV revenue (HRK 13 million or 3.4%).

From total deviation, negative contribution from residential segment (HRK 77 million or 4.2%) and business segment (HRK 55 million or 5.0%) was partially offset by positive contribution of Optima Telekom segment (HRK 42 million or 9.5%).

In 2017, fixed line voice retail revenue decreased in comparison to 2016 mainly as a result of continuous decline in the number of revenue producing fixed customers (5.4%) due to ongoing fixed to mobile substitution trend coming from strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment. Consequently, number of minutes dropped and ARPU voice declined by 6.9%. ARPU decline is under influence of more low value residential customers using fixed voice services (mostly elderly population).

In comparison to 2016 fixed wholesale revenue decreased mainly due to H1 consolidation (from July 2017) and partially offset by increase of ULL price from HRK 43.61 to 49.53 valid from January 2017.

Broadband revenue decreased in comparison to the same period last year as a result of lower ARPU by 3.8% despite of higher customer base by 1.0%. ARPU decline is a result of stronger competition and aggressive offers in the market. To stabilize revenues and ensure base for revenue growth, HT continues with push of Magenta1 proposition offer, MAX2/MAX3 packages and Ultra MAX on FTTH.

Other fixed revenue increase comes mostly from positive contribution of Optima Telekom.

TV revenue increased in comparison to the same period last year as a result of higher customer base by 4.0% despite of slightly lower TV ARPU by 1.4% as consequence of push of TV through Magenta1, new Elderly offer and retention activities.

System Solutions

System solution revenue increased by HRK 54 million or 8.0% to HRK 731 million in 2017 in comparison to 2016. Crnogorski Telekom contributed with HRK 32 million. Excluding Crnogorski Telekom, system solution revenue is above 2016 by HRK 22 million or 3.2%.

Miscellaneous revenue

Increase in miscellaneous revenue (HRK 39 million or 34.7%) mainly comes from energy business due to higher average number of business customers by 21.8% that generate large consumption of energy.

Other operating income

Other operating income increased by HRK 30 million or 20.5% to HRK 174 million compared to 2016. Crnogorski Telekom contributed with HRK 4 million. Excluding Crnogorski Telekom, other operating income increased by HRK 26 million or 17.8%. Increase is driven by higher real estate sale in 2017 (HRK 35 million), partially offset by absence of commitment write off related to obligation for antenna poles retirement (HRK 9 million) realized in 2016.

OPERATING EXPENSES

Total consolidated operating expenses increased by HRK 551 million or 12.5% to HRK 4.943 million in 2017. Crnogorski Telekom contributed with HRK 422 million. Excluding Crnogorski Telekom, operating expenses increased by HRK 129 million or 2.9%.

When excluding Crnogorski Telekom, increase was a result of higher material expenses (HRK 124 million or 5.9%), write down of assets (HRK 59 million or 157.9%) and other expenses (HRK 11 million or 0.8%), partially offset by higher work performed by the Group and capitalized (HRK 50 million or 49.8%) and lower employee benefits expenses (HRK 14 million or 1.4%).

Excluding Crnogorski Telekom and costs treated as exceptional items, mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation, operating expenses increased by HRK 70 million or 1.6%.

Material expenses

Material expenses increased to HRK 2,387 million in 2017 as a result of higher merchandise, material and energy expenses (HRK 259 million or 19.1%) and services expenses (HRK 32 million or 4.3%). Crnogorski Telekom contributed with HRK 167 million. Excluding Crnogorski Telekom, material expenses increased by HRK 124 million or 5.9% as a result of higher merchandise, material and energy expenses (HRK 158 million or 11.7%), partially offset by lower services expenses (HRK 35 million or 4.7%).

Excluding Crnogorski Telekom, higher merchandise, material and energy expenses are under influence of higher energy sales costs and higher merchandise costs.

Increase of energy sales costs (HRK 77 million or 83.4%) is influenced by higher business average customer base and higher usage, higher energy cost on markets and new regulation that was introduced at the end of 2016 when Croatian Government ceased a part of “Renewables Law” which sets suppliers free of obligation to buy green energy at premium price.

Merchandise costs increase (HRK 77 million or 6.9%) was driven by higher mobile merchandise (HRK 58 million or 9.6%), higher system solution merchandise (HRK 20 million or 4.2%) following system solution revenue development and lower fixed merchandise (HRK 1 million or 4.1%) compared to 2016.

Mobile merchandise cost increase was mainly driven by residential segment as a result of increased sales volume of smartphones, higher number of contract prolongations taking handsets and higher share of more valuable handsets additionally supported by growing convergent offers.

Excluding Crnogorski Telekom, lower services expenses are mainly under influence of lower copyright fees.

Lower copyright fees (HRK 29 million or 40.7%) were caused by higher share of capitalized content rights contracts.

Employee benefits expenses

Total employee benefits expenses increased by HRK 87 million or 8.8% in 2017 as a result of higher personnel costs (HRK 95 million or 10.5%) offset by lower redundancy costs (HRK 8 million or 18.3%). Excluding Crnogorski Telekom in amount of HRK 101 million, total employee benefits decreased by HRK 14 million or 1.4% due to lower redundancy costs (HRK 15 million or 18.3%), partially offset by higher personnel costs (HRK 1 million or 0.1%).

Total number of FTEs amounts to 5,110 with Crnogorski Telekom contribution of 522 FTEs. Excluding Crnogorski Telekom, number of FTEs increased from 4,427 in 2016 to 4,588 in 2017.

Other expenses

Other expenses increased by HRK 162 million or 11.8% to HRK 1,535 million in 2017. Crnogorski Telekom contributed with HRK 152 million. Excluding Crnogorski Telekom, other expenses are above 2016 by HRK 11 million or 0.8% mainly driven by higher external employment (HRK 14 million or 9.1%) and higher selling commissions (HRK 11 million or 10.6%), partially offset by lower maintenance costs (HRK 16 million or 5.7%).

Increase in external employment comes from initiatives with focus to increase customer experience.

Increase in selling commissions comes from higher share of indirect sales channel (new franchises and dealers), as well as overall better performance in both fixed and mobile transactions.

Savings in maintenance are under influence of lower number of fault repairs due to increased quality of infrastructure and higher number of faults handled by HT technicians.

Write down of assets

The assets write down increased by HRK 68 million or 181.7% to HRK 106 million in 2017. Crnogorski Telekom contributed with HRK 9 million. Excluding Crnogorski Telekom, assets write down increased by HRK 59 million or 157.9% mainly due to higher value adjustment of receivables driven by market influences.

Depreciation and amortization

Depreciation and amortization increased to HRK 1,869 million by HRK 372 million or 24.8% compared to 2016. Crnogorski Telekom contributed with HRK 161 million. Excluding Crnogorski Telekom, depreciation and amortization increased by HRK 210 million or 14.1% compared to 2016 mainly driven by electronic communication infrastructure assets and capitalization of content contracts.

PROFITABILITY

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 316 million or 11.2% to HRK 3,138 million in 2017. Crnogorski Telekom contributed with HRK 220 million. Excluding Crnogorski Telekom, EBITDA before exceptional items increased by HRK 96 million or 3.4%. Increase is a result of higher revenue realization (HRK 141 million or 2.0%) mainly driven by realization in mobile and higher other operating income (HRK 26 million or 17.8%) due to higher sale of fixed assets, partially offset by higher operating expenses (HRK 70 million or 1.6%).

Optima Telekom contribution to 2017 Group EBITDA was above 2016 by HRK 5 million under influence of H1 consolidation. It amounted to HRK 112 million (2016: HRK 106 million) and consisted of HRK 275 million of Optima Telekom third party contribution (2016: HRK 239 million) and HRK 164 million of inter-company relations (2016: HRK 132 million).

Net profit after non controlling interests

In comparison to 2016, consolidated net profit after non controlling interests decreased by HRK 70 million or 7.5% to HRK 863 million in 2017. Crnogorski Telekom contributed with HRK 31 million. Excluding Crnogorski Telekom, net profit after non controlling interest decreased by HRK 101 million or 10.8%.

Net profit after non controlling interest decreased as a result of higher depreciation and amortization (HRK 210 million or 14.1%) driven by electronic communication infrastructure assets and capitalization of content contracts, higher costs that are treated as exceptional items mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation (HRK 59 million or 69.4%) and higher net financial loss (HRK 52 million or 67.1%) mostly driven by higher interest expense due to content capitalization. This was partially compensated with higher EBITDA before exceptional items (HRK 96 million or 3.4%), non controlling interest (HRK 63 million or 1126.4%) and lower taxation (HRK 61 million or 25.8%).

Optima Telekom contributed to HT Group net profit by loss of HRK 8 million (2016: loss of HRK 1 million).

FINANCIAL POSITION

Balance sheet

In comparison to 2016 year end, total asset value increased by 8.9% primarily driven by consolidation of Crnogorski Telekom and merger of H1 Telekom to Optima Telekom.

Compared to 31 December 2016, total non-current asset increased by HRK 1,496 million or 16.8% as at 31 December 2017 under influence of Crnogorski Telekom consolidation and H1 merger. Total current asset decreased by HRK 212 million or 3.8% mainly as a result of decrease in financial assets due to payment made for Crnogorski Telekom acquisition.

Total issued capital and reserves increased from HRK 12,046 million at 31 December 2016 to HRK 12,573 million at 31 December 2017 mainly driven by Crnogorski Telekom consolidation, realized net profit for 2017 in the amount of HRK 863 million, partially offset with dividend payment amounting to HRK 491 million.

Total non-current liabilities increased by HRK 176 million or 31.4% mainly due to merger of H1 Telekom to Optima Telekom coming from their non-current liabilities for issued bond and liabilities towards banks. Excluding Crnogorski Telekom, non-current liabilities increased by 23.8% mostly due to higher liabilities related to retransmission rights.

Total current liabilities increased by HRK 582 million to HRK 2,429 million at 31 December 2017 driven by trade payables in Crnogorski Telekom. Excluding Crnogorski Telekom, current liabilities increased by 13.8% mainly due to increase in trade payables related to ICT services due to purchases for related projects realized in December 2017.

Cash flow

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

Net cash flow from operating activities increased by HRK 616 million or 29.7% driven by consolidation of Crnogorski Telekom that contributed by HRK 285 million. Without this effect, cash flow increased by HRK 332 million mainly due to EBITDA increase and positive contribution from working capital in 2017.

Net cash flow from investing activities increased by HRK 527 million or 30.2%. Excluding Crnogorski Telekom, cash flow from investing activities increased by HRK 682 million mainly due to lower investments into REPO arrangements in 2017.

Net cash flow from financing activities decreased by HRK 148 million or 17.8%. Excluding Crnogorski Telekom, cash flow decreased by HRK 76 million mainly due early repayment of financial lease.

CAPITAL EXPENDITURE

Capital expenditure realization in 2017 increased by HRK 277 million or 17.2% including contribution of Crnogorski Telekom in amount of HRK 140 million compared to the 2016. Without this effect, capital expenditure realization in 2017 increased by HRK 137 million or 8.5% to HRK 1,745 million in comparison to 2016 mostly due higher investment related to capitalization of contracts for TV content, IT transformation and 4G rollout.

HT finished 2017 with P3 award proving the best mobile network in the voice and data segment in Croatia. The main prerequisites for a convincing victory on the P3 test were increase of 4G capacity by 34%, increased number of 4G locations by 29% in 2017, introducing VoLTE functionality and intense E2E optimization measures. Due to Roam like at home regulative which caused roaming traffic increase by 330.3% during the tourist season and introduced Stream on service, data traffic volume increased by 79%. Despite increased volume, HT raised the average mobile Internet speed by 38% per annum.

HT concluded year 2017 with new generation approach (NGA) available for 58% households with a speed >30 Mbps from which 20% with speed > 100Mbps. Optical access network (FTTx) is available for 374 thousand households.

HT, as a first on Croatian market introduced Hybrid Access fixed-mobile converged speed service aiming to increase Internet speeds to customer using fixed low-speed connections (currently at maximum speed of 10 Mbps). This provided fixed customers access speed up to 30 Mbps simultaneously using fixed and mobile network.

Intensive activities on the modernization of the local aggregation network continued in order to increase throughput, reliability and stability of service and increase the quality of service to the end user, 77% of devices have been replaced by the end of 2017.

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Pilot network of the future - PanTera was implemented on limited footprint of Croatia, bringing to customers superior Internet speed up to 1 Gbps and 4K TV content. Friendly customer trial has been launched.

As part of the TV platform modernization and aiming to improve customer experience, migration of customers to the new NextTV platform started (with new transcoding technology – HEVC, in order to significantly improve image quality). By the end of 2017, 90% of customers were migrated. Interoperability has also been introduced and allowed sharing content between IPTV and OTT part of the service.

In 2017, HT as first in Croatia enabled voice calls over the superfast LTE network. Voice service over HT LTE network (VoLTE) provides the customers with clear and natural sound through HD voice. Call set-up times standing is shortened, superfast data transmission during telephoning is enabled and battery life of mobile devices is extended.

2017 was the year of launching the largest IT investment in the region – Business IT Transformation (BITT), and the end of year resulted with reducing of product portfolio and optimization of the processes.

In parallel with the BITT project, IT continued transformation towards digital society, including the management of the HAL (Harmonized API Layer) project on DT Group level. New concepts of services such as VoLTE, eSIM, Hybrid Access, Pantera have been successfully realized. New, redesigned fixed and mobile tariffs have been implemented. Particularly innovative is mobile portfolio defining the first postpaid-prepaid tariff. As support for new customer offers, new TV platform has been successfully integrated within IT environment.

CRNOGORSKI TELEKOM STANDALONE FINANCIAL AND NON FINANCIAL HIGHLIGHTS

CRNOGORSKI TELEKOM STANDALONE FINANCIAL AND NON FINANCIAL HIGHLIGHTS

Note: 2016 is not consolidated into HT Group accounts. 2016 data is presented for illustrative purposes to indicate key trends in Crnogorski Telekom performance versus 2017. “Segment Crnogorski Telekom consolidated” is presented later in the document. EUR is the official reporting currency Crnogorski Telekom.

Crnogorski Telekom key financial and operational data are under influence of continued regulatory and strong competitive pressure in 2017. Note that 2016 is not consolidated into HT Group accounts. Data is demonstrated to present key trends in Crnogorski Telekom operative performance.

Key financial data in EUR million	**2016**	**2017**	**% of change A17/A16**
Mobile revenue	44.0	42.5	-3.3%
Fixed revenue	43.2	38.1	-11.8%
System solutions	4.6	4.7	0.7%
Revenue	**91.8**	**85.3**	**-7.1%**
EBITDA before EI	**31.1**	**29.5**	**-5.2%**
Net profit after non controlling interests	**9.4**	**5.1**	**-45.5%**
Capex	**21.0**	**18.6**	**-11.2%**
Key operational data	**2016**	**2017**	**% of change A17/A16**
Mobile customers in 000	**361**	**352**	**-2.5%**
- Prepaid	**176**	**141**	**-20.0%**
- Postpaid	**185**	**211**	**14.2%**
Fixed mainlines - retail in 000	**135**	**123**	**-9.5%**
Broadband access lines - retail in 000	**70**	**70**	**-0.6%**
TV customers in 000	**59**	**56**	**-4.8%**

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

Market pressure resulted with lower revenue realization by EUR 6.6 million or 7.1% in 2017 in comparison to 2016.

Mobile revenues declined compared to 2016 by EUR 1.5 million or 3.3%. Prepaid segment still represents challenge, and has declined compared to 2016 by EUR 2.3 million or 19.8%. Main drivers of prepaid decline are lower customer base by 20.0% as a result of main competitors focus on prepaid segment and lower ARPU by 12% mainly as a result of pre2post migrations.

Crnogorski Telekom has set its focus on postpaid segment and keeps leading position with share of 40.3% on postpaid market in Montenegro. Postpaid revenue increased by EUR 0.7 million or 2.6% compared to 2016 driven by customer base growth of 14.2% supported with Magenta1 and with new standalone, more competitive and data oriented portfolio. Magenta1 achieved over 14% of consumer households, while in business area there are more than 1.000 active accounts.

In 2017 visitor revenues increased by EUR 0.7 million or 47.9% compared to 2016 due to extraordinary touristic season with roamers from operators without discount agreement.

Although Crnogorski Telekom has market share leadership in fixed voice and broadband in Montenegrin market, fixed revenues declined compared to 2016 by EUR 5.1 million or 11.8%. Fixed voice decline continued (EUR 2.8 million or 20.0%) due to regulatory pressure, ongoing fixed to mobile substitution, and lower customer base by 9.5%. Broadband revenue below 2016 by EUR 1.8 million or 16.4%, driven by lower customer base and affected by regulation. TV slightly below by EUR 0.2 million or 3.2%. Churn prevention efforts are taken with Magenta1 refresh, VDSL and Extra Duo offers in core telco retail.

System solution revenue slightly above 2017 by EUR 0.03 million or 0.7% in comparison to 2016.

EBITDA before exceptional items decreased by EUR 1.6 million or 5.2% compared to 2016, following revenue development which was partially offset by lower material costs due to lower copyright fees as a result of realized TV content capitalization in Q4 2016 and 2017.

EBITDA margin before exceptional items in 2017 amounts to 34.5% and is above 2016 by 0.7 p.p. (2016: 33.8%).

Crnogorski Telekom Capex decreased by EUR 2.4 million or 11.2%, mainly due to anticipated/shifted capitalization from 2017 to 2016.

OVERVIEW OF SEGMENT PROFITABILITY

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

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

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

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

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

Optima consolidated unit includes contribution of all Optima Telekom's and H1 Telekom's functions to the Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in whole amount on Fixed other revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited. Only financial consolidation is performed, while Optima Telekom non-financial KPIs are not included into Group achievements.

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

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

Depreciation and amortization is not allocated to the segments.

Residential segment

in HRK million	2016	2017	% of change A17/A16
Mobile revenue	1,870	1,953	4.4%
Fixed revenue	1,841	1,764	-4.2%
Miscellaneous	39	37	-5.4%
Revenue	**3,750**	**3,754**	**0.1%**
Operating expenses	**1,185**	**1,208**	**1.9%**
Contribution to EBITDA before exceptional items	**2,565**	**2,546**	**-0.7%**

Business segment

in HRK million	2016	2017	% of change A17/A16
Mobile revenue	951	1,035	8.9%
Fixed revenue	1,093	1,038	-5.0%
System solutions	677	696	2.8%
Miscellaneous	73	114	55.9%
Revenue	**2,793**	**2,883**	**3.2%**
Operating expenses	**1,420**	**1,554**	**9.4%**
Contribution to EBITDA before exceptional items	**1,373**	**1,329**	**-3.2%**

Network and support functions

in HRK million	2016	2017	% of change A17/A16
Other operating income	142	166	17.0%
Operating expenses	1,498	1,402	-6.4%
Contribution to EBITDA before exceptional items	**-1,355**	**-1,236**	**8.8%**

Segment Optima consolidated

in HRK million	2016	2017	% of change A17/A16
Fixed revenue	441	483	9.5%
Revenue	**441**	**483**	**9.5%**
Other operating income	**2**	**4**	**66.3%**
Operating expenses	**204**	**211**	**3.2%**
Contribution to EBITDA before exceptional items	**239**	**275**	**15.4%**

Segment Crnogorski Telekom consolidated

in HRK million	2016	2017	% of change A17/A16
Mobile revenue	0	317	-
Fixed revenue	0	284	-
System solutions	0	35	-
Revenue	**0**	**636**	**-**
Other operating income	**0**	**4**	**-**
Operating expenses	**0**	**417**	**-**
Contribution to EBITDA before exceptional items	**0**	**223**	**-**

HT INC. FINANCIAL HIGHLIGHTS

HT INC. FINANCIAL HIGHLIGHTS

Revenue

Revenue increased by HRK 140 million or 2.4% to HRK 6,073 million in 2017 when compared to 2016. Increase was driven by higher mobile revenue (HRK 168 million or 5.9%) coming from visitors and mobile handset revenue, miscellaneous revenue (HRK 39 million or 37.6%) coming from energy business and system solution revenue (HRK 21 million or 10.3%). This increase was partially offset with decrease in fixed revenue (HRK 88 million or 3.2%) mostly resulting from lower voice, compensated by higher wholesale and TV revenue.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 96 million or 3.7% to HRK 2,691 million in 2017, mainly as a result of higher revenue (HRK 140 million or 2.4%) and higher other operating income (HRK 21 million or 15.6%) driven by sales of fixed assets. This increase was partially offset by higher operating expenses (HRK 66 million or 1.9%) driven mainly by higher energy sales costs and merchandise costs related to retention activities taken in mobile segment and growing system solution business.

Net profit after non controlling interests

Net profit after non controlling interests decreased by HRK 68 million or 7.4% to HRK 841 million in 2017. Decrease was primarily a result of higher depreciation and amortization (HRK 112 million or 8.4%) driven by electronic communication infrastructure assets as well as capitalization of content contracts, higher net financial loss (HRK 52 million or 141.1%), higher exceptional items (HRK 50 million or 60.6%) mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation. This was partially compensated by higher EBITDA before exceptional items (HRK 96 million or 3.7%) and lower taxation (HRK 50 million or 21.2%).

CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY

A company's reputation depends not only on the quality, price or specific products and services, but also on the company's relationships with its customers, suppliers and investors, employees, the environment and the wider community in which the company operates, and the positive interaction with all stakeholders forms the basis for such relationships.

All this creates the framework of HT's social responsibility strategy, laying the ground for business success. By encouraging all segments, teamwork and commitment to the company's social responsibility, we aim to encourage different ideas, to contribute to society and work towards improving the quality of life.

Hrvatski Telekom is committed to participating in the development of society, where emphasis is placed on the importance of investment and new technologies, and has decided to do business driven by innovation, vision and creativity.

HT has received the "Sjaj" (Glow) award for the visibility and affirmation of socially responsible business and sustainability in the company's digital media, awarded by Dobra Hrvatska – business initiative for affirmation of socially responsible business and sustainable development, in partnership with the Croatian Employers' Association as a representative of the Global Compact Network in Croatia.

Compliance with laws and other regulations, observance of internal rules and the Code of Conduct are the basis of responsible corporate governance.

From 2015 on, HT Group and all its group companies have a Corporate Responsibility Policy in place, which forms the basis for the Group's continuous definition, maintenance, monitoring and development of responsibilities with regard to corporate responsibility and related duties.

In July, the central internal audit of HT's Integrated Environ¬ment, Health, and Security Management System, as part of the DTAG's Integrated Management System, was successfully con¬ducted by DT's auditors, in line with the requirements of the ISO 14001 and OHSAS 18001 standards. The audit confirmed the integration of environmental care into all relevant work proces¬ses and a high level of environmental awareness of employees, and indicated that HT's Integrated System is functioning on a professional level or, respectively, that HT complies with all requirements set by the Company and with all requirements according to standards.

Responsibility towards the society

Knowledge society

Being the technology leader and the leading company in Croatia by its positive impact on the wider business and social environment, Hrvatski Telekom recognized the trends on the labor market, in the economy and in the academic community, and launched the STEM program aimed at popularizing STEM professions in the society.

By introduction of the HT STEM HUB incubator, we are creating an academic and economic community of young experts who are given the possibility to realize their professional ambitions in Croatia, by using cutting-edge technology and resources made available to them. The STEM program of Hrvatski Telekom creates opportunities to work on international projects, within the scope of Deutsche Telekom Group, without the need to leave Croatia.

We were the first to collect several individual STEM initiatives based on which we realized numerous activities to introduce children to interdisciplinary knowledge, such as robotics and astronomy. We collaborate with STEM faculties, students are provided with traineeship and mentoring, they can be granted scholarships, and the best ones get an opportunity for employment. We are granting scholarships in the monthly amount of HRK 3,000 to selected students of the Faculty of Electrical Engineering and Computing (FER), being their student partners.

By way of collaboration with student associations, we organize participation in competitions and participate in career fairs, and our experts often give guest lectures at faculties, providing students with specific knowledge from practical work.

For students of the Faculty of Electrical Engineering and Computing (FER) and the Faculty of Science (PMF), we conducted a Machine Learning workshop.

We are supporting the startup community by means of the Idea Knockout competition and the HackIT, hackathon organized by Hrvatski Telekom, providing winners with the possibility to realize their ideas within the scope of hub:raum, the leading startup accelerator of Deutsche Telekom. Last year's winner, Team Maggie, received investment amounting to EUR 30,000 by hub:raum. Team Turtle, the winning team of the HackIT hackathon in 2017, presented an interactive fairy tale made for children of younger age and won the grand prize of HRK 30,000 and the ability to access hub:raum. The application uses augmented reality to communicate with the child via smartphone. The main criteria for selection of the winner were innovation and development status of the idea and its market potential. When designing the idea, competitors were able to use today's state-of-the-art technology, such as virtual and augmented reality.

We actively support education of the young by projects also focused on education of teachers and professors of primary and secondary schools on STEM professions, enabling them to transfer such knowledge to as many of their students as possible. Projects based on innovative, digital, but primarily on socially responsible solutions with a positive impact on the wider social community, encouraged by the STEM program, are achieving extraordinary success, as well as increasing involvement of students and teachers in projects from the STEM area. At the Faculty of Electrical Engineering and Computing (FER), we are partners in the International Winter School in the domain of networked sensor systems related to smart cities; we aim to increase the students' interest in the professional area and make them aware of opportunities in the technology industry.

We are partnering in the e-Leadership MBA program competition of the Algebra University College where, in collaboration with the best students, we are developing a smart city-related HT project based on the topic of the "Living with the Internet of Things in

Smart Cities" business case which, at the same time, increases the citizen's quality of life.

With the University of Dubrovnik we have signed a Cooperation Agreement in the area of educational, development, and scientific and research projects, and within the scope of such collaboration, the first specific project: "Big Data – Tourism Crowding Management", was announced.

In collaboration with Netokracija we launched a new platform which supports quality development of STEM resources and shows the potential of Croatian technical and development resources, which is realized by regular tracking of the subject matter, support of employment, by means of a technical employer base, announcement of developer events and development education.

The focus on achievement and development is part of our Guiding Principles. We are a company that appreciates and rewards knowledge. We motivate our employees to continuously educate themselves by means of development programs offered by the company – such as the Big Data Academy, an internal program enabling employees to gain advanced knowledge and skills as a basis for establishment of a different mindset with regard to the things surrounding us, and we encourage all generations to engage in development and to enter the new digital world.

Furthermore, our employees can use digital tools for education and training; by having access to the Skillsoft platform, they can choose among more than 7,000 courses from various areas, among more than 46,000 online books and 65,000 video content titles. The supported competencies are creativity, complex project management, focus on problem solution, flexibility and openness to rapid changes, high level of digital knowledge, customer orientation and global approach.

Donations and sponsorships

At HT, the focus is on projects of projects of lasting value in the areas of technology and education. The most prominent projects include the annual donation competition for projects of special importance to the community. In 2017, the competition was comprised of three categories – Youth Education, Teacher/Professor Education and Innovations. The winning projects are: HT Campus of the Višnjan-based Astronomical Society, Advanced IoT Technologies in Schools of the Institute for Youth Development and Innovativity and the First Croatian Hydrogen Fueling Station developed by the Faculty of Mechanical Engineering and Naval Architecture.

HT has a key role in the development of the knowledge society by supporting various gatherings of scientific experts such as WinDays, the MIPRO Conference, the Combis Conference, the Cisco Conference and other events related to the telecommunications sector.

The partnership with the Museum of Contemporary Art (MSU) continued in 2017 as well. The first digital museum in Croatia, artt.hr, brings together in one place all the best works of authors of contemporary art submitted to the "HT Award – MSU Zagreb" competition throughout the last ten years.

In 2017, we provided sponsorship support to six film festivals: ZagrebDox, Pula Film Festival, Motovun Film Festival, Vukovar Film Festival, Zagreb Film Festival and FILMOFEEL FEST.

For the tenth consecutive year, tportal ran a competition for the roman@tportal.hr literary prize worth HRK 50,000. The prize was awarded to Kristian Novak for his novel "Ciganin, ali najljepši" ('Gypsy, yet the Handsomest').

In 2017 again, HT was the general sponsor of the "Bug Future Show" tech show and supported the biggest regional startup competition, the Idea Knockout, and enabled one of the teams to participate in the biggest international consumer electronics show – CES 2017, including an exhibition stand at the show.

Responsibility towards employees

The employee development program, realized by means of structured programs under the joint "HT Academy" platform, as well as a whole range of individual educations, among which we would like to highlight the 24/7 availability of 3,000 digital education topics made available via "Skillsoft" and "Learnlight" platforms, provide employees with knowledge on the latest trends and achievements, thus enabling them to develop essential knowledge and skills. We identified the key talents from all areas of the company, and we employ an individual approach to the development of their careers in order to achieve a targeted increase in competency, engagement and motivation. Last year, 30 % of employee talents were promoted to a higher position.

By means of the Thank you! program we recognize and reward employees who are putting their heart into the work, as this is how we work better, learn more and provide top services.

Being aware of the fact that as technology leader we are setting high standards in our operations, we also care about the work-life balance of our employees: flexible working hours, parents of first graders getting one day of paid leave for the child's first day at school, and Friday in Slippers are just some of the numerous possibilities.

Our employees' health is important to us – complete medical check-ups, fit corner, exercises, anti-stress workshops, and counselling on nutrition are just some of the activities we undertake to promote healthy life. The HT Olympics are a sports meeting where all interested employees can show their sports skills in a competitive spirit. This year, the B2B Run motivated almost 500 employees to engage in sports activities. In 2016, HT was again awarded the title of B2B fittest company.

For excellence in human resources management and continuous improvement of work processes and keeping track of global trends, we reached a high score and confirmed our Employer Partner status.

Responsibility towards customers

A safe partner to users of the best network

For us, care about customer experience starts much earlier than at the moment of offering or provisioning of the service or product; this year again, experience provides proof that the only correct way is to put the customer into the center of all our activities.

We invest in the customer – as an active advocate of the customers' actual needs, we are developing products and services that will suit the customers' habits, needs and wishes, and that will add value which can be provided by the leading company on the market. We employed the customer perspective in the Offer for Young People, offering an innovative stream-on service, and in the creation of a totally new concept of the fixed and mobile portfolio that combines the best from prepaid and postpaid tariff plans, providing the customer with the flexibility of payment and contractual obligation, By our Business M1 offering, we provide the best from the fixed, mobile and cloud world for flawless communication and secure online business, along with the fastest Internet speeds.

We invest in our staff - in stable and high quality human resources, in technicians who, being in contact with customers on a daily basis, have the opportunity to show what kind of difference in support our employee is making. After technicians in Dalmatia have become HT employees, we extended the project to Istria, the coastal area and central Croatia; the results provide proof that, next year, we should continue with the rest of Croatia.

We invest in technological superiority to be able to provide new experiences in the areas of television, Internet and communications. Proof of our success in this regard is also provided by the renowned P3 Certificate we received for the best network.

We invest in all segments, creating prerequisites for top-quality service and products, for reliable, efficient and quality customer support when needed, and therefore, in 2018 we will continue to build our corporate culture, make investments in technology and create best content.

Cutting-edge technologies for better quality of life

Smart City as a project within the so-called Internet of Things refers to the benefits of using ICT solutions and digitized processes focused on improvement of management efficiency in the city, increasing quality of life for citizens and achieving savings. The project results have already provided proof that cities and counties are ready for the technology, through modernized record keeping on waste management, IT-supported network of e-charging stations, digitized operation of city authorities and offices (e-bill, efficient document management in the Cloud, kindergarten entrance and exit monitoring system and the like) as well as leading solutions in public lighting, parking, traffic, air quality supervision and increase of energy efficiency in cities, all this being monitored, analyzed and controlled through a common smart city platform (IoT platform). Digital economy and ICT solutions from the IoT areas are the fastest-growing segment of economy. HT, in collaboration with its strategic and local partners, is currently the only one to offer comprehensive solutions for smart cities.

In Zadar, the first smart payphones in Croatia have been presented, serving as a source of all necessary local information for citizens and tourists, at the same time providing a broad range of next generation innovative ICT services, which the citizens can safely pay using their credit and debit cards.

Two smart bus stops are available from today to Rijeka's citizens and tourists that offer a range of functionalities for a more efficient and enjoyable experience of city transport. The bus stops represent a global technological step forward towards smart cities of the future.

Responsibility towards suppliers

HT applies a Sustainable Procurement Program based on which products and services are purchased on Group level. The Group tries to get optimum value, taking into account factors such as price, quality, availability and functionality, impact of products and/or services on the environment, social aspects, working conditions and human rights. The Program includes supply chain management with regard to social and environmental risks and the possibility for a long-term benefit for the Company, selection of suppliers according to clearly defined minimum standards (including the Social Charta or conventions of the International Labor Organization) and regular overviews that ensure compliance.

Responsibility towards the environment

Sustainable development and climate protection constitute one of the strategic determinants of HT and the entire DT Group, and use of energy from renewable sources is one step forward in HT's constant efforts to create a society with reduced greenhouse gas emissions. Since 2016, HT has been covering more than 80% of its electricity needs solely from renewable energy sources.

As the only telecommunications company in Croatia certified under the ISO 14001 Environmental Management Standard, HT is focused on the implementation of green technologies and energy-saving solutions. By implementation of cutting-edge ICT technologies, HT contributes to the reduction of its own carbon footprint, while providing its customers with many products and services enabling them to do the same. The majority of such products and services allows development and application of various forms of online business activities (e-commerce, e-administration, e-banking etc.), virtualization of business in hitherto markedly "physical" environments (e-libraries, e-video libraries, online advertising, online sales, online customer support, e-bills etc.), thus transforming traditionally physical products into electronical ones. By development, implementation and provision of increasingly broad offerings of ICT services "in the cloud", HT is making an additional contribution to the beneficial influence of ICT technologies and services on climate changes, as evident from reduced need for travel, reduced consumption of paper and other tangible resources, less, more rational and more efficient use of energy etc., which has an impact on reduction of harmful gas emissions, particularly carbon dioxide into the air.

Corporate responsibility in companies owned by HT

Combis

In 2017, COMBIS organized the COMBIS4Planet campaign to mark its moving to new premises at a new address, but also supported the "Earth Hour" campaign. The company distributed potted plants which reduce harmful radiation to all employees in the new offices, but also to other companies at the new location.

In 2017, Combis actively supported the student population in many projects. The company also organized the second COMBIS try{code}catch hackathon, a 24-hour programming competition for students. Combis also provided sponsorship support to student contests in mobile and web application development, the "App Start Contest" and the "TVZ Mobile Challenge Cup", HT's HackIT hackathon, the Freshmen Party of the Faculty of Electrical Engineering and Computing (FER), as well as the Job Fair and Career Speed Dating, events focused on employment of university students. Furthermore, in 2017 as well, COMBIS granted scholarships to students of the Faculty of Electrical Engineering and Computing.

COMBIS supported numerous technology conferences in Croatia, such as Cisco Connect, Microsoft Windays, Oracle Day, TEDx, F2 - Future of Fintech, Dell EMC Forum in Zagreb, the conference of the Croatian Association of Corporate Treasurers and the Information Security Conference of the Information Systems Security Bureau (ZSIS), while internationally, the company participated in conferences such as MS Network 7 in Bosnia and Herzegovina, Technobank in Serbia, and World Hosting Days in Germany. High expectations were also met by the 11th COMBIS Conference held in Šibenik under the main theme "Challenge the Future".

COMBIS provided support by monetary donations to the XV Gymnasium, in the organization of the students' trip to the international computer science competition ACSL 2017 in the USA. Support was also provided to the Culture Shock Festival, a project promoting urban culture, to the "'Latica" association for the "Dodir" playroom intended for children with developmental disorders, but also to the development of amateur sports of the "Rudar" Handball Club and the "Fešk Feričanci" Football Club.

Iskon

In 2017, Iskon Internet continued to support culture and music-related projects of the international original authors. Under the slogan "Iskon is in love with good music", financial support was granted to the SuperUho (SuperEar) Boutique Festival in Primošten, the Brijačnica (Barbershop) Festival and the all-season music program of the Culture Factory in Zagreb. Furthermore, Iskon provided technical support to the concerts of the Prophets of Rage and Duran Duran at the Zagreb Šalata venue.

Within the scope of the SuperUho Festival and in collaboration with the Muzika.hr portal, a big music-themed hackathon was held which stood out in public by its innovative concept and the event location. In February 2017, Iskon was also one of the donors and generators of the "STEM Revolution in Schools" project of Nenad Bakić on the Indiegogo platform.

This year again, Iskon's employees continued with their active involvement in the campaign of UOLL Association from Čakovec; by collecting plastic caps from PET bottles, they provided help to persons suffering from leukemia or lymphomas. In 2017, the "Kids Innovation Day" was organized for children of Iskon employees during which the children could spend the day with their parents at work and visit the internal LEGO robotics workshops for the youngest ones.

In 2017, Iskon participated in the B2B Run with the largest team so far. The bicycle parking space in the building of the company's seat in Garićgradska 18 in Zagreb was remodeled, and the employees' football club "FC Iskon" was again provided with space for training during the year.

Crnogorski Telekom

Being one of the leading companies in Montenegro, CT strives to be present in all areas of importance to the Montenegrin society. In addition to the aim to provide customers with top-quality telecommunications services, CT also actively contributes to the development of the community.

The Internet in the service of education

During 2017, CT provided free broadband Internet services for approximately 250 secondary and primary schools, as well as for preschool institutions in Montenegro, thus making a significant contribution to the quality and modernization of education. This was the continuation of the ten-year strategic cooperation with the Ministry of Education.

For Every Good Deed

Within the scope of the donation program "For Every Good Deed" which aims to support and promote projects of importance to the community, implemented by means of digital technologies, in 2017, seven projects were supported: "Little programmers" – programming and robotics courses for primary school children, the "First children's portal in Montenegro" – a portal offering education and information intended for parents and children of primary school age, the "Eco Atlas" – an online platform for keeping records on the stock of trees in cities and surrounding areas, "Our forests, our concern" – a forest fire prevention campaign, "Using assistive technologies to increase the autonomy of disabled persons"– education provided to sight impaired persons on how to use smartphones on their own in order to increase their autonomy and social integration, "Let's learn together" – a mobile application providing support to disabled persons, "Let's continue together to the speech therapy classroom" – equipping and operation of a speech therapy classroom at the Žabljak Center.

Volunteer club

The year 2017 saw the establishment of the Telecom's Volunteer Club which aims to improve volunteering and charity activities of workers employed with Crnogorski Telekom. In cooperation with the Ministry of Education of Montenegro, the Club organized three tree-planting and schoolyard fixing campaigns in Podgorica, and a voluntary blood donation campaign for employees and management of the company was conducted of in cooperation with the Blood Transfusion Service.

HT GROUP FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

in HRK million (IFRS)	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Mobile revenue	2,821	3,305	2,988	17.2%	5.9%
Fixed revenue	3,375	3,569	3,288	5.7%	-2.6%
System solutions	677	731	698	8.0%	3.2%
Miscellaneous	112	151	151	34.7%	34.7%
Revenue	**6,984**	**7,756**	**7,125**	**11.0%**	**2.0%**
Other operating income	145	174	170	20.5%	17.8%
Total operating revenue	**7,129**	**7,930**	**7,296**	**11.2%**	**2.3%**
Operating expenses	**4,392**	**4,943**	**4,522**	**12.5%**	**2.9%**
Material expenses	2,096	2,387	2,220	13.9%	5.9%
Employee benefits expenses	986	1,073	972	8.8%	-1.4%
Other expenses	1,373	1,535	1,383	11.8%	0.8%
Work performed by the Group and capitalised	-101	-158	-151	-56.7%	-49.8%
Write down of assets	38	106	97	181.7%	157.9%
EBITDA	**2,736**	**2,986**	**2,774**	**9.1%**	**1.4%**
Depreciation and amortization	1,497	1,869	1,708	24.8%	14.1%
EBIT	**1,239**	**1,118**	**1,066**	**-9.8%**	**-14.0%**
Financial income	63	38	35	-39.7%	-45.4%
Income/loss from investment in joint ventures	4	2	2	-48.3%	-48.3%
Financial expenses	144	174	165	20.9%	14.7%
Profit before taxes	**1,162**	**984**	**938**	**-15.4%**	**-19.3%**
Taxation	234	180	174	-23.3%	-25.8%
Net profit	**928**	**804**	**764**	**-13.3%**	**-17.7%**
Non controlling interests	-6	-59	-69		
Net profit after non controlling interests	**934**	**863**	**833**	**-7.5%**	**-10.8%**
Exceptional items [1)]	85	151	144	78.0%	69.4%
EBITDA before exceptional items	**2,821**	**3,138**	**2,918**	**11.2%**	**3.4%**

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

CONSOLIDATED BALANCE SHEET

in HRK million (IFRS)	At 31 Dec 2016	At 31 Dec 2017 with CT	At 31 Dec 2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Intangible assets	1,738	2,539	2,016	46.1%	16.0%
Property, plant and equipment	5,619	6,175	5,599	9.9%	-0.4%
Non-current financial assets	1,352	1,333	2,263	-1.4%	67.4%
Receivables	121	248	163	105.3%	35.2%
Deferred tax asset	59	91	91	52.7%	52.7%
Total non-current assets	**8,889**	**10,385**	**10,132**	**16.8%**	**14.0%**
Inventories	111	128	108	14.9%	-2.8%
Receivables	1,327	1,631	1,388	22.8%	4.6%
Current financial assets	1,189	197	160	-83.4%	-86.6%
Cash and cash equivalents	2,676	3,152	3,095	17.8%	15.6%
Prepayments and accrued income	262	246	240	-6.2%	-8.4%
Total current assets	**5,566**	**5,353**	**4,991**	**-3.8%**	**-10.3%**
TOTAL ASSETS	**14,455**	**15,738**	**15,122**	**8.9%**	**4.6%**
Subscribed share capital	9,823	9,823	9,823	0.0%	0.0%
Reserves	492	492	492	0.0%	0.0%
Revaluation reserves	2	2	6	-31.9%	139.5%
Retained earnings	633	1,024	1,043	61.9%	64.9%
Net profit for the period	934	863	833	-7.5%	-10.8%
Non controlling interests	163	369	129	126.0%	-21.0%
Total issued capital and reserves	**12,046**	**12,573**	**12,325**	**4.4%**	**2.3%**
Provisions	53	73	67	36.5%	24.9%
Non-current liabilities	472	617	598	30.6%	26.5%
Deferred tax liability	35	47	31	34.1%	-13.6%
Total non-current liabilities	**561**	**737**	**695**	**31.4%**	**23.8%**
Current liabilities	1,741	2,310	1,994	32.6%	14.5%
Deferred income	89	89	78	-0.2%	-12.6%
Provisions for redundancy	17	30	30	79.8%	79.8%
Total current liabilities	**1,847**	**2,429**	**2,102**	**31.5%**	**13.8%**
Total liabilities	**2,408**	**3,166**	**2,797**	**31.5%**	**16.1%**
TOTAL EQUITY AND LIABILITIES	**14,455**	**15,738**	**15,122**	**8.9%**	**4.6%**

CONSOLIDATED CASH FLOW

in HRK million (IFRS)	2016	2017 with CT	2017 wo CT	% of change A17 with CT/A16	% of change A17 wo CT/A16
Profit before tax	1,162	984	938	-15.4%	-19.3%
Depreciation and amortization	1,497	1,869	1,708	24.8%	14.1%
Increase / decrease of current liabilities	-151	321	194	311.9%	227.9%
Increase / decrease of current receivables	-112	-105	-77	6.0%	31.3%
Increase / decrease of inventories	-1	-57	-47		
Other cash flow increases / decreases	-321	-320	-309	-	3.8%
Net cash inflow/outflow from operating activities	**2,075**	**2,691**	**2,406**	**29.7%**	**16.0%**
Proceeds from sale of non-current assets	56	99	99	78.0%	77.3%
Proceeds from sale of non-current financial assets	639	2	2	-99.8%	-99.8%
Interest received	18	11	8	-39.6%	-55.6%
Dividend received	3	0	0	-100.0%	-100.0%
Other cash inflows from investing activities	1,941	1,302	1,350	-32.9%	-30.4%
Total increase of cash flow from investing activities	**2,656**	**1,413**	**1,458**	**-46.8%**	**-45.1%**
Purchase of non-current assets	-1,173	-1,467	-1,287	-25.0%	-9.7%
Purchase of non-current financial assets	-1,019	-867	-924	14.9%	9.2%
Other cash outflows from investing activities	-2,207	-295	-307	86.6%	86.1%
Total decrease of cash flow from investing activities	**-4,398**	**-2,629**	**-2,518**	**40.2%**	**42.7%**
Net cash inflow/outflow from investing activities	**-1,742**	**-1,215**	**-1,060**	**30.2%**	**39.1%**
Total increase of cash flow from financing activities					
Repayment of loans and bonds	-38	-72	-23	-90.1%	38.5%
Dividends paid	-491	-493	-491	-0.4%	0.0%
Repayment of finance lease	-10	-53	-53	-442.4%	-442.4%
Other cash outflows from financing activities	-294	-363	-342	-23.6%	-16.3%
Total decrease in cash flow from financing activities	**-833**	**-981**	**-909**	**-17.8%**	**-9.2%**
Net cash inflow/outflow from financing activities	**-833**	**-981**	**-909**	**-17.8%**	**-9.2%**
Exchange gains/losses on cash and cash equivalents	**2**	**-19**	**-18**		
Cash and cash equivalents at the beginning of period	3,175	2,676	2,676	-15.7%	-15.7%
Net cash (outflow) / inflow	-501	494	437	198.8%	187.3%
Cash and cash equivalents at the end of period	**2,676**	**3,152**	**3,095**	**17.8%**	**15.6%**

CONSOLIDATED EBITDA RECONCILIATION

in HRK million	2016	2017	% of change A17/A16
Segment Result (Contribution to EBITDA)			
Residential Segment	2,565	2,546	-0.7%
Business Segment	1,373	1,329	-3.2%
Network and Support Functions	-1,355	-1,236	8.8%
Segment Optima consolidated	239	275	15.4%
Segment Crnogorski telekom consolidated	0	223	-
Total Contribution to EBITDA before exceptional items of the Segments	**2,821**	**3,138**	**11.2%**
Exceptional items	85	151	78.0%
Total EBITDA	**2,736**	**2,986**	**9.1%**

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") give a true and fair view of the financial position and results of Croatian Telecom Inc. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing those consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 16 February 2018.

Croatian Telecom Inc.
Roberta Frangeša Mihanovića 9
10000 Zagreb
Republic of Croatia

16 February 2018

On behalf of the Group,

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

Ms. Marija Felkel
Member of the Management Board and CHRO

Mr. Daniel Daub
Member of the Management Board and CFO

Mr. Boris Batelić
Member of the Management Board and CCO

Mr. Boris Drilo
Member of the Management Board and CTIO

Ms. Nataša Rapaić
Member of the Management Board and COO Residential

Mr. Saša Kramar
Member of the Management Board and COO Business

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Hrvatski Telekom d.d.:

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Hrvatski Telekom d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2017;
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

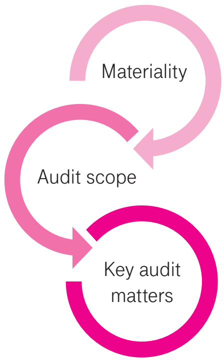
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in the note 40 to the consolidated financial statements.

Our audit approach

Overview

- Overall materiality for consolidated financial statements: HRK 75 million, which represents 2.5% of Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA).



- We conducted audit work at four legal entities in Croatia (Hrvatski Telekom, Combis, Iskon and Optima) and one legal entity in Montenegro.
- Our audit scope addressed 99% of the Group's revenues and 99% of the Group's absolute value of underlying profit.
- Capitalisation of content rights
- Business combination
- Impairment of goodwill

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall materiality for consolidated financial statements

HRK 75 million

How we determined it

2.5% of EBITDA. EBITDA (HRK 2,987 million) is operating profit (HRK 1,118 million) adjusted for depreciation, amortisation and impairment of property, plant and equipment and intangible assets (HRK 1,869 million).

Rationale for the materiality benchmark applied

We consider EBITDA to be the key metric in the industry of the Group, and it is the benchmark against which the performance of the Group is most commonly measured by shareholders.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Capitalisation of content rights	
Refer to note 2.4.e (Summary of accounting policies) and note 15 (Intangible assets). The Group consolidated statement of financial position includes capitalised intangible assets of HRK 2,539 million, which includes capitalised content rights of HRK 309 million. We focused on this area because of the significance of the costs capitalised and the fact that there is a judgement involved in application of the guidance included in IAS 38 – Intangible assets. There are two main risks that we addressed in our audit: (1) the risk of whether the criteria required for capitalisation of such costs have been met, and (2) the risk that management's estimate of future consideration payable from content contracts is not reasonable.	We obtained a detailed analysis of capitalised content contracts in current and prior periods, and reconciled these amounts to prior year information and current year general ledger. No significant reconciling differences were identified. We have tested a sample of costs capitalised in the period by review of related contracts and invoices to assess whether they have been appropriately capitalised in line with the Group's accounting policy. In addition, we assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data, and considered the consistency of the future growth rate assumptions with management's business plans. We also compared the discount rate used to market information. We identified no significant variances. Overall, we found that the costs were capitalised in line with the Group's accounting policy, and management's assumptions were reasonable.
Business combination	
Refer to note 3 Business combinations. On 29 June 2017, following the appropriate regulatory approvals, the Group completed the acquisition of H1 Telekom. Subsequently, on 31 July 2017, H1 Telekom merged with a Group entity (OT-Optima Telekom) and ceased to exist as a separate legal entity. Based on the difference between the consideration price and the fair value of the net identifiable assets acquired, which includes assets identified upon acquisition such as customer relationships and trademark, management determined that the goodwill arising from the H1 acquisition amounted to HRK 88 million.	We read the relevant contract, agreements and board minutes that supported the acquisition accounting applied to this transaction. We tested the valuation of the consideration, and completeness and valuation of identified assets and liabilities by performing the following procedures: ■ We assessed the completeness and accuracy of identified assets and liabilities by comparison to the audited financial statements of H1, our industry expertise and discussions with management. ■ We used PwC valuation specialists to assess the appropriateness of the valuation models and independently re-perform the valuations prepared by management.

We focused on this area because accounting for business combinations is complex and involves significant judgements and estimates, specifically related to the valuation of non-cash consideration (shares) and the allocation of the purchase price to identified net assets and goodwill.

- We assessed the key assumptions used in the valuations, including the discount rate and royalty rates used for brand valuation, by comparison to market information.
- We analysed management's assumptions in the business plan used for valuation (growth rates and cost savings from synergies) by comparing them to historical financial information and future cash flow projections of OT-Optima Telekom.
- We verified the mathematical accuracy of the valuations performed, including the calculation of the resulting goodwill.
- We checked that useful lives of identified intangible asset are in line with useful lives for similar assets used by the Group.

We found that the key judgements and assumptions applied in the valuation of non-cash consideration and purchase price allocation were within a reasonable range of our audit expectations, and that the business combination transaction has been appropriately recorded and disclosed in the consolidated financial statements.

Impairment of goodwill

Refer to note 2.3 (Significant accounting judgements, estimates and assumptions) and note 15 (Intangible assets). The Group statement of financial position includes goodwill of HRK 456 million.

Under IFRS the Group is required to, at least annually, test goodwill for impairment. We focused on this area because management's assessment of the 'fair value less costs of disposal' of the related cash-generating units involves significant judgement about future results of the business, particularly those relating to the cash flow forecasts (revenue projections and growth rates) and the applied discount rate.

In the evaluation of the assumptions as disclosed in note 2.3 as well as methodologies used (discounted cash flow model) by management, we used internal valuation experts to assist us in evaluating the methodology used and the underlying assumptions.

We discussed with management their estimate of future cash flow forecasts, and the process by which they were drawn up. We tested the mathematical accuracy of underlying calculations, and we compared the cash-flow forecasts to approved budgets. We noted no significant exceptions.

We compared current year actual results with prior year forecasts as an indication of the quality of the forecasting process. We found no significant differences.

We evaluated and challenged the discount rate used by comparing the rates used to comparable organisations and market information. We also reviewed management's sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would cause the goodwill to be impaired. We found that the post-tax discount rate used by management was consistent with market data, and the growth rate assumption was consistent with historical results and did not exceed the industry forecasts.

We agree with management's assessment that no significant impairment to the carrying amount of goodwill was identified, based on available evidence.

How we tailored our Group audit scope

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

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component audit teams operating under our instructions. Where the work was performed by component audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Together with the parent entity, we identified five significant reporting units where full-scope audit procedures were performed, while no audit procedures were considered necessary for two insignificant reporting units.

The audit work performed at all the significant components and by the group engagement team enabled us to get 99% coverage of the Group's total assets, 99% coverage of the Group's revenue and 99% coverage of the Group's absolute value of underlying profit before tax.

By performing the procedures at all the significant components combined with additional procedures at the Group level, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

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

Management is responsible for the other information. The other information comprises the Consolidated Annual Report of the Group, which includes the Management Report and Corporate Governance Statement (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 4th May 2011. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 7 years.

The engagement partner on the audit resulting in this independent auditor's report is Tamara Maćašović.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
16 February 2018

Tamara Maćašović
Member of the Management Board and Certified Auditor

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HRK million	2016 HRK million
Revenue	4	7,756	6,985
Other operating income	5	174	144
Merchandise, material and energy expenses	6	(1,612)	(1,354)
Service expenses	7	(775)	(743)
Employee benefits expenses	9	(1,073)	(987)
Work performed by the Group and capitalised		158	101
Depreciation, amortization and impairment of non-current assets	8	(1,869)	(1,497)
Other expenses	10	(1,641)	(1,410)
Operating profit	4	**1,118**	**1,239**
Finance income	11	38	64
Finance costs	12	(174)	(144)
Finance costs – net		(136)	(80)
Share of profit of investments accounted for using the equity method	18	2	3
Profit before income tax		**984**	**1,162**
Income tax expense	13	(180)	(234)
Profit for the year		**804**	**928**
Items that may be subsequently reclassified to comprehensive income			
Change in value of available for sale financial assets		3	(1)
Other comprehensive income for the year, net of tax		**3**	**(1)**
Total comprehensive income for the year, net of tax		**807**	**927**
Profit attributable to:			
Equity holders of the Company		863	934
Non-controlling interest		(59)	(6)
		804	928
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		866	933
Non-controlling interest		(59)	(6)
		807	927
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	14	HRK 10.55	HRK 11.40

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	31 December 2017 HRK million	31 December 2016 HRK million
ASSETS			
Non-current assets			
Intangible assets	15	2,539	1,738
Property, plant and equipment	16	6,140	5,576
Investment property	17	35	44
Investments accounted for using the equity method	18	379	377
Available-for-sale financial assets	19	948	949
Trade and other receivables	21	248	121
Bank deposits	23	6	26
Deferred income tax asset	13	90	59
Total non-current assets		**10,385**	**8,890**
Current assets			
Inventories	20	128	111
Trade and other receivables	21	1,630	1,328
Prepayments	22	246	261
Available-for-sale financial assets	19	-	46
Bank deposits	23	197	1,143
Cash and cash equivalents	23	3,152	2,676
Total current assets		**5,353**	**5,565**
TOTAL ASSETS		**15,738**	**14,455**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

As at 31 December 2017

	Notes	31 December 2017 HRK million	31 December 2016 HRK million
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	28	9,823	9,823
Legal reserves	29	491	491
Fair value reserves and effects of foreign exchange		2	3
Reserve for treasury shares	30	38	-
Treasury shares	30	(38)	-
Retained earnings	31	1,888	1,567
Total		**12,204**	**11,884**
Non-controlling interest		369	163
Total issued capital and reserves		**12,573**	**12,047**
Non-current liabilities			
Provisions for other liabilities and charges	27	60	42
Borrowings	37	302	262
Employee benefit obligations	26	13	12
Deferred income	25	21	19
Other liabilities	24	290	148
Finance lease	37	4	42
Deferred income tax liability	13	47	36
Total non-current liabilities		**737**	**561**
Current liabilities			
Trade payables and other liabilities	24	2,155	1,615
Provisions for other liabilities and charges	27	103	91
Finance lease	37	2	13
Income tax payable		27	23
Deferred income	25	89	89
Borrowings	37	52	16
Total current liabilities		**2,428**	**1,847**
Total liabilities		**3,165**	**2,408**
TOTAL EQUITY AND LIABILITIES		**15,738**	**14,455**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HRK million	2016 HRK million
Operating activities			
Profit before income tax		984	1,162
Depreciation, amortization and impairment of non-current assets	8	1,869	1,497
Interest income	11	(8)	(19)
Interest expense	12	122	93
Gain on disposal of assets	5,10	(70)	(35)
Other net financial loss (gain)	11,12	22	6
Share of profit of joint venture	18	(2)	(3)
Increase in inventories	20	(58)	(1)
Increase in receivables and prepayments		(166)	(142)
Increase/(decrease) in payables and accruals		327	(149)
Increasein employee benefit obligations	26	1	-
Increase/(decrease) in provisions		21	(12)
Other non-cash items		(1)	(19)
Cash generated from operations		3,041	2,378
Interest paid		(129)	(78)
Income tax paid		(221)	(225)
Net cash flows from operating activities		**2,691**	**2,075**
Investing activities			
Payments for non-current assets		(1,467)	(1,173)
Proceeds from sale of non-current assets		98	55
Payment for acquisition of Crnogorski Telekom, net of cash acquired	3	(866)	-
Payments for available-for-sale financial assets and deposits		(41)	(1,018)
Proceeds from sale of available-for-sale financial assets and deposits		76	972
Payments for secured deposits (reverse REPO arrangements)	23	(255)	(2,207)
Proceeds from secured deposits (reverse REPO arrangements)	23	1229	1,608
Interest received		11	18
Dividend received (joint venture)	18	-	3
Net cash flows used in investing activities		**(1,215)**	**(1,742)**
Financing activities			
Dividends paid	31	(491)	(491)
Dividend paid to non-controlling interest in subsidiary		(2)	-
Repayment of radio frequency spectrum, content and ECI contracts		(326)	(294)
Other financial repayments		-	(30)
Repayment MCL		(8)	(8)
Repayment of lease liability and borrowings		(116)	(10)
Acquisition of treasury shares		(38)	-
Neto novčani tijekovi korišteni u financijskim aktivnostima		**(981)**	**(833)**
Net increase in cash and cash equivalents		495	(500)
Cash and cash equivalents as at 1 January		2,676	3,174
Exchange gains on cash and cash equivalents		(19)	2
Cash and cash equivalents as at 31 December	23	**3,152**	**2,676**

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

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS – DEBT RECONCILIATION

For the year ended 31 December 2017

	Cash/ bank overdraft	Liquid investments	Finance lease due within 1 year	Finance lease due after 1 year	Borrow. due within 1 year	Borrow. due after 1 year	Other fin. liabilities (spectrum, content and ECI contracts) within 1 year	Other fin. liabilities (spectrum, content and ECI contracts) after 1 year	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net debt as at 31 December 2016	**2,676**	**2,164**	**(13)**	**(42)**	**(16)**	**(262)**	**(218)**	**(140)**	**4,149**
Cash flow	495	(1,013)	13	39	63	-	326	-	(77)
Acquisition of Crnogorski Telekom	-	-	-	-	(48)	-	(4)	(15)	(67)
Acquisition of H1	-	-	(1)	-	(12)	(73)	(8)	(19)	(113)
Reclassification of current portion	-	-	-	-	(35)	35	(357)	357	-
Other non financial movements	-	-	-	-	-	-	-	(465)	(465)
Foreign exchange movements	(19)	-	(1)	(1)	(4)	(2)	-	-	(27)
Net debt as at 31 December 2017	**3,152**	**1,151**	**(2)**	**(4)**	**(52)**	**(302)**	**(261)**	**(282)**	**3,400**

Liquid investments consist of bank deposits and available-for-sale financial assets.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Issued share capital HRK million (Note 28)	Legal reserves HRK million (Note 29)	Fair value reserves and effects of change in foreign exchange HRK million	Reserve for treasury shares HRK million (Note 30)	Treasury shares HRK million (Note 30)	Retained earnings HRK million (Note 31)	Total HRK million	Non-controlling interest HRK million	Total equity HRK million
Balance as at 1 January 2016	**9,823**	**444**	**4**	**-**	**-**	**1,193**	**11,464**	**166**	**11,276**
Profit for the year	-	-	-	-	-	934	934	(6)	928
Other comprehensive income for the year	-	-	(1)	-	-	-	(1)	-	(1)
Total comprehensive income for the year	-	-	(1)	-	-	934	933	(6)	927
Dividends paid to equity holders of the Company (Note 31)	-	-	-	-	-	(491)	(491)	-	(491)
Increase in legal reserves based on transfer from retained earnings	-	47	-	-	-	(47)	-	-	-
Value of conversion rights of MCL	-	-	-	-	-	-	-	(8)	(8)
Prior period correction of error from HT d.d. Mostar (Note 18)	-	-	-	-	-	(22)	(22)	-	(22)
Balance as at 31 December 2016	**9,823**	**491**	**3**	**-**	**-**	**1,567**	**11,884**	**163**	**12,047**
Profit for the year	–	–	–	–	–	863	863	(59)	804
Other comprehensive income for the year	–	–	3	–	–	–	3	–	3
Total comprehensive income for the year	–	–	3	–	–	863	866	(59)	807
Dividends paid to equity holders of the Company (Note 31)	–	–	–	–	–	(491)	(491)	–	(491)
Reserve for treasury shares	–	–	–	38	–	(38)	–	–	–
Acquisition of treasury shares	–	–	–	–	(38)	–	(38)	–	(38)
Value of conversion rights of MCL	–	–	–	–	–	–	–	(8)	(8)
Acquisition of H1	–	–	–	–	–	–	–	43	43
Acquisition of Crnogorski Telekom	–	–	–	–	–	(12)	(12)	231	219
Effects of Changes in Foreign Exchange Rates	–	–	(4)	–	–	(1)	(5)	(1)	(6)
Balance as at 31 December 2017	**9,823**	**491**	**2**	**38**	**(38)**	**1,888**	**12,204**	**369**	**12,573**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. Corporate information

Croatian Telecom Inc. ("HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom Europe B.V. with a 51% holding. Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. Deutsche Telekom Europe Holding B.V is 100% owned by Deutsche Telekom Europe Holding GmbH which is 100% owned by Deutsche Telekom AG. Thus, Deutsche Telekom AG is the ultimate controlling parent.

The registered office address of the Company is Roberta Frangeša Mihanovića 9, Zagreb, Croatia.

The total number of employees of the Group as at 31 December 2017 was 5,304 (31 December 2016: 4,656).

The principal activities of the Group are described in Note 4.

The consolidated financial statements for the financial year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Management Board on 16 February 2018. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets (Note 19), as disclosed in the accounting policies hereafter.

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

The consolidated financial statements include the financial statements of Croatian Telecom Inc. and the following subsidiaries which comprise together HT Group ("Group"):

			Ownership interest	
Entity	Country of Business	Principal Activities	31 December 2017	31 December 2016
Combis d. o. o.	Republic of Croatia	Provision of IT services	100 %	100 %
Iskon Internet d. d.	Republic of Croatia	Provision of internet and data services	100 %	100 %
KDS d. o. o.	Republic of Croatia	Provision of cable TV services	100 %	100 %
E-tours d. o. o.	Republic of Croatia	Provision of travel agency services	100 %	100 %
OT – Optima Telekom d. d. /i/	Republic of Croatia	Provision of internet and data services	17,41 %	19,02 %
M-Tele d. o. o.	Republic of Croatia	Investment in foreign subsidiary	100 %	–

Company M-Tele d.o.o. that acts as special purpose vehicle entity which holds 76.53% shares of Crnogorski Telekom AD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

2.1. Basis of preparation (continued)

/i/ Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima.

The Croatian Competition Agency has conditionally allowed the concentration of HT and determined a set of measures with regard to management and control over Optima, among which is the implementation of a so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima initially was limited to a period of four years, up to 18 June 2018.

On 14 June 2017 HT received the Decision of the Croatian Competition Agency by which the duration of temporary management rights of the company OT-Optima Telekom d.d. for HT is prolonged for an additional three-year period, that is, until 10 July 2021.

As of July 2021 control by HT is automatically terminated, without the possibility of extension. One year prior to such date, HT is required to commence the process of selling all of its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well (see Note 3).

Set out below is summarised financial information for subsidiaries with non-controlling interest OT-Optima Telekom d.d. and Crnogorski Telekom AD. The amounts disclosed are before intercompany eliminations including purchase price fair value allocation on consolidation level.

OT-Optima Telekom d.d. **Summarised statement of financial position**	31 December 2017 HRK million	31 December 2016 HRK million
Current assets	154	103
Current liabilities	288	115
Current net assets	**(134)**	**(12)**
Non-current assets	709	528
Non-current liabilities	388	320
Non-current net assets	**321**	**208**
Net assets	**187**	**196**
Accumulated non-controlling interest	162	163

Summarised statement of comprehensive income	31 December 2017 HRK million	31 December 2016 HRK million
Revenue	495	454
Profit for the period	(83)	(7)
Other comprehensive income	–	–
Total comprehensive income	**(83)**	**(7)**
Profit allocated to non-controlling interest	(69)	(6)
Dividends paid to non-controlling interest	–	–

Summarised statement of cash flows	31 December 2017 HRK million	31 December 2016 HRK million
Cash flow from operating activities	145	60
Cash flow from investing activities	(49)	(36)
Cash flow from financing activities	(56)	(35)
Net decrease in cash and cash equivalents	**40**	**(11)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

Crnogorski Telekom AD **Summarised statement of financial position**	31 December 2017 HRK million
Current assets	399
Current liabilities	353
Current net assets	**46**
Non-current assets	1,028
Non-current liabilities	42
Non-current net assets	**986**
Net assets	**1.028**
Accumulated non-controlling interest	240

Summarised statement of comprehensive income	31 December 2017 HRK million
Revenue	640
Profit for the period	40
Other comprehensive income	–
Total comprehensive income	**40**
Profit allocated to non-controlling interest	10
Dividends paid to non-controlling interest	

Summarised statement of cash flows	31 December 2017 HRK million
Cash flow from operating activities	285
Cash flow from investing activities	(213)
Cash flow from financing activities	(72)
Net decrease in cash and cash equivalents	**–**

2.2. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated and disclosed.

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards for their annual reporting period commencing 1 January 2017 which were endorsed by the European Union and which are relevant for the Group's financial statements:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
- Disclosure Initiative – Amendments to IAS 7

The adoption of amendments has required additional disclosure of changes in liabilities arising from financing activities, see note – Note to consolidated statement of cash flows – debt reconciliation and did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. None of these standards and interpretations are expected to have significant effect on the Group's financial statements, except for the following standards:

- IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB issued IFRS 9 "Financial Instruments." Application of the standard is mandatory for reporting periods beginning on or after 1 January 2018. The standard introduces new classification and measurement requirements for financial instruments and replaces IAS 39.

The effects are analysed in a completed DT Group-wide project on implementation of the new standard. On the basis of management's current estimate, Croatian Telekom expects the first-time application of the standard to have the following impacts on the financial statements:

Depending on the respective underlying business model, the new provisions on the classification of financial assets will in some cases give rise to changes in measurement and presentation. In particular, the measurement of equity instruments at fair value through other comprehensive income will be without reclassification in profit or loss of the cumulative gains and losses on disposal (OCI option).

Under IFRS 9, the Group has adopted the general expected credit loss model for loans, debt instruments carried at amortised cost and debt instruments carried at fair value through other comprehensive income. The Group has adopted the simplified expected credit loss model under IFRS 9 for trade receivables and contract assets (which will be recognized for the first time as of 1 January 2018 in accordance with IFRS 15) which will lead to earlier recognition of impairment losses in some cases.

Hereby mentioned impairment losses as to both general and simplified approach will have effect of first time adoption in amount between 32 and 48 HRK million on retained earnings before taxes.

- IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

This standard provides a single, principles- based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces in particular the existing standards IAS 18 "Revenue" and IAS 11 "Construction Contracts" and has effect on the presentation of Company results of operations and financial position.

The Group will utilize the option for simplified initial application, i.e., contracts that are not completed by 1 January 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. The effects are being analyzed in a Group-wide project on implementation of the new standard. Based on management's current estimate, Company expects the changeover to the new standard to result in a cumulative increase in retained earnings of HRK 220-260 million before taxes. This effect will be mainly attributable to the first-time recognition of:

a) Contract assets that, in the case of multiple-element arrangements (e.g. mobile contract plus handset) a larger portion oft he total remuneration will be attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue from the sale of goods and merchandise, and

b) Deferred customer acquisition costs or expenses for sales commisions (customer acquisition costs) which will be capitalised and recognised over the estimated customer retention period.

As regards the new standard's impact on the consolidated income statement, the Group expects expects the overall share of revenue from the provision of services to decrease, and the overall share of revenue from the sale of goods and merchandise to increase, by between 2 and 5 percentage points. Under IFRS 15 revenue will be recognized earlier and expenses will be recognized later for contracts not yet concluded by 1 January 2018. However, as the accounting effects of the changeover to the new standard will be recognized directly in equity, the only effects on profit or loss in 2018 will be related to changes in the point in time at which revenue and expenses are realized. On the assumption that business development remains unchanged, this will mean the following for a mass market characterized by a large number of customer contracts that are being concluded at different points in time:

- lower service revenues and higher selling expenses from the amortization of capitalized customer acquisition costs will be compensated for by
- higher revenue from the sale of goods and lower selling ex-

penses on new contracts from the capitalization of customer acquisition costs.

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

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases of finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model

- IFRS 16 will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The Group is currently assessing the impact of this new standard on its financial statements. The Group plans to adopt the standard on its effective date and when endorsed by the European Union. Please refer to note 32 a) for operating lease commitments.

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, during the reporting period or at the reporting date respectively. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as explained further in Notes 27 and 33. Changes in these judgments could have a significant impact on the financial statements of the Group.

Impairment of non-financial assets

The determination of impairment of assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of the business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for those products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results.

The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details including carrying values and effects on the result of the period are given in Notes 15 and 16.

Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and is heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in the Group's total assets, the impact of significant changes in these assumptions could be material to the financial position and results of operations of the Group.

The following table demonstrates the sensitivity to a reasonably possible change in useful life on amortization and depreciation, with all other variables held constant, on the Group's profit post tax:

	Increase / decrease in %	Effect on profit post tax HRK million
Year ended 31 December 2017	+10	120
	-10	(129)
Year ended 31 December 2016	+10	108
	-10	(103)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. These calculations require the use of estimates (Note 15). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the business and residential cash-generating units to materially exceed their recoverable amount. In case of cash-generating unit Optima Telekom and Crnogorski Telekom, a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 2%, increase of costs by 2% or change in capex and revenue ratio) with all other variables held constant, does not result in an impairment charge.

Content contract liability

As explained in intangible asset accounting policy (Note 2.4) content costs are capitalised with related liability recognised. The determination of liability for variable content contracts requires judgement as it is based on estimated number of future customers and use of a discount rate. Management believes that no reasonably possible change in any of the key assumptions would cause a significant change in content contract liability.

Intangible assets with an indefinite life

In arriving at the conclusion that the acquired brand has an indefinite life, the Group considered the fact that the brand represents a whole business segment and relates to an operator with proven and sustained demand for its products and services in a well-established market. The brand has historically been supported through spending on consumer marketing and promotion. The Group considered other factors such as the ability to continue to protect the legal rights that arise from the brand name indefinitely and the absence of any competitive factors that could limit the life of the brand name. The Group expects continued economic benefits from the acquired brand in the future. However, a strategic decision to withdraw marketing support from the brand or the weakening in the brand's appeal through changes in customer preferences might result in an impairment charge in the future. Also, reasonable change in certain key assumptions (such as change of revenues by 2% and change in royalty relief rate by 0.1%) does not lead to impairment.

2.4. Summary of accounting policies

a) Operating profit

Operating profit is defined as the result before income taxes and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, treasury bills, interest bearing available-for-sale financial assets, share of profit and loss from associate and joint venture, interest expense on borrowings, gains and losses on the sale of available-for-sale financial assets and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

b) Business Combinations and Goodwill

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquire's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through the statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest in the acquire over the fair value of identifiable net assets acquired. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the statement of comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings.

c) Investment in associate

In the Group's financial statements, investment in an associated company (generally a shareholding of between 20% and 50% of voting rights) where significant influence is exercised by the Group is accounted for using the equity method less any impairment in value. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. An assessment of investment in associate is performed when there is an indication that the asset has been impaired or that the impairment losses recognized in previous years no longer exist.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

d) Investment in joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as the parent company.

Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Interest in the joint venture is derecognized at the date on which the Group ceases to have joint control over the joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

e) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized in the event that the future economic benefits that are attributable to the assets will flow to the Group, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful life. The amortization method is reviewed annually at each financial year-end.

Amortization of the telecommunication licence commences when the licence is acquired and ready for use, with the amortization period being the term of the licence.

The Group recognizes costs of content as an intangible asset at the inception of the related contract. The Group determined that the following conditions have to be met for capitalization of content provider contracts: contract duration must be longer than one year, cost must be determined or determinable, contracted rights must be continuous and costs under the contract are unavoidable. Assets recognized under these contracts will be amortized over the contract period. Content contracts which do not meet the criteria for capitalization are expensed and presented in 'other expenses' in the statement of comprehensive income.

The Group capitalizes rights of servitude and rights of way related to the Electronic Communication Infrastructure (ECI) as intangible assets according to criteria for acquired rights at the moment of signing the contract for rights of servitude or receiving certificate for right of way. The Group presents the acquired rights as intangible assets and financial liability as the acquired rights, and related cost is capitalized for the period of 3 years. The cost is the amount of one-off fee paid at entering into the arrangement and any other fees which are considered to be unavoidable. The non-cancellable term of the contract is three years, as it is assumed that this payment is unavoidable due to the fact that there will be no significant changes in technology and topology in that time period, and the Group cannot change its routes or find other locations for ECI in a shorter time period. Accordingly, it is Group's estimate that consistent period of 3 years is the period of liability and useful life of ECI assets from each balance sheet date.. Unwinding of accrued interest is recognized as an interest expense and is presented within other financial income/expense.

Customer relationships and long-term customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 900/1800 MHz frequency bands	13 years
Radio frequency spectrum in 800 MHz frequency band	11–12 years
Right of servitude for Distributive Telecommunication Infrastructure (DTI)	3 years
Software, content and other assets	2–5 years or as per contract
Customer relationship	6.5–10.5 years
Brand	Indefinite
Long-term customer contracts	1.5–7 years

Assets under construction are not amortised.

Goodwill arises on the acquisition of subsidiaries. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill and intangible assets with indefinite useful lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment for goodwill is determined by assessing the recoverable amount, based on fair value less cost of disposal, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 15 for more details.

f) Property, plant and equipment

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services.

Subsequent expenditure on an asset that meets the recognition criteria to be recognized as an asset or an addition to an asset is capitalized, while maintenance and repairs are charged to expense when incurred.

After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

Buildings	10-50 years
Telecom plant and machinery	
Cables	8-18 years
Cable ducts and tubes	30 years
Other	2-15 years
Customer premises equipment (CPE)	7 years
Tools, vehicles, IT, office and other equipment	4-15 years

Land and assets under construction are not depreciated.

Useful lives, depreciation method and residual values are reviewed at each financial year-end, and if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

Construction-in-progress represents plant and properties under construction and is stated at cost.

Depreciation of an asset begins when it is available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other expenses' in the statement of comprehensive income.

g) Investment property

Investment property, principally comprising business premises and land, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimated useful lives of 10 to 50 years (2016: 10 to 50 years).

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

h) Impairment of assets

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment of trade receivables

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired. Provisions for impairment are measured according to the collection best estimate. Receivables are written-off in the case when the debtor is liquidated or ceased its business activities; when the legal case is lost by the final court decision or in the case of lapse of receivables.

Impairment of available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

i) Inventories

Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs necessary to make the sale. Cost is determined on the basis of weighted average cost.

Phone sets are often sold for less than cost in connection with promotions to obtain new and/or retain existing subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as inventory impairment immediately.

j) Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If collection is expected after one year the receivables are presented as non-current assets. Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

k) Foreign currencies

Transactions denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the statement of comprehensive income within financial income or financial expense, respectively.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;

(b) income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and

(c) all resulting exchange differences are recognized in statement of other comprehensive income.

l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the assets and the lease term.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

m) Taxation

The income tax charge is based on profit for the year and includes deferred taxes. Deferred taxes are calculated using the balance sheet method.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at the reporting date.

Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Current and deferred taxes are charged or credited in other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period in other comprehensive income.

n) Employee benefit obligations

The Group provides other long-term employee benefits (Note 26). These benefits include retirement payments. The defined benefit obligation is calculated annually by independent actuary using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognized in the statement of comprehensive income immediately in the period in which they occur. Gains or losses on the curtailment or settlement of benefit plans are recognized when the curtailment or settlement occurs. The benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of comprehensive income.

The Group provides death in service short term benefits which are recognized as an expense of the period in which it incurred.

o) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements with the exception of the provision of its telecommunications infrastructure to third parties that offer value added services to its customer. In these cases, the Group is acting as an agent.

Revenue from fixed telephony includes revenue from activation fees, monthly fees, calls placed by fixed line subscribers and revenue from additional services in fixed telephony.

Revenue from wholesale services includes interconnection services for domestic and international carriers, and revenue from usage of network by other operators.

Revenues from the provision of its network to the provider of value added services are reported on a net basis. Revenues are exclusively the amount of the commission received.

Third parties using the Group's telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the Group's network. These wholesale (incoming) traffic revenues included in voice and non-voice (data and internet) revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these transit calls are stated gross in the financial statements as the Group is the principal supplier of these services using its own network freely defining the pricing of the services, and are recognized in the period of related usage.

Revenue from mobile telephony includes revenue from monthly fee and call charges for "post-paid" mobile customers, call charges for "pre-paid" mobile customers, call charges for customers of international mobile operators when roaming on the Group's mobile network, sale of mobile handsets, domestic interconnection revenues related to mobile network, revenues for short and multimedia messages and data traffic revenues.

Revenue from unused tariff packages and prepaid vouchers is recognized when they are realised. Before their realisation, they are recorded as deferred revenues.

Revenue from the sales of electricity is recognized at fair value in the period when service is provided to customers.

The Group offers certain multiple-element arrangements (bundled product offers) arrangements. For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e. a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated). The relative fair value of an individual element is limited by the proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements. If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the total arrangement consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total arrangement consideration and the fair value of the undelivered elements.

Revenue from internet and data services includes revenue from leased lines, frame relay, Ethernet services, ADSL subscription and traffic, fixed line access, VPN online, internet traffic to T-Com call number, Multimedia services, IP phone (access and traffic) and IPTV. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions.

Revenue from ICT includes revenue from restructuring business processes, application management services, technology infrastructure and system maintenance and the design and development of complex IT systems to a client's specifications (design and build) and WEB hosting. For bundled offer arrangements, revenue recognition for each of the elements relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e. a ratio of the fair value of each element to the aggregated fair value of the bundled deliverable).

Revenues from application management services, technology infrastructure and system maintenance are recognised on a straight-line basis over the term of the contract. Revenues from time and material contracts are recognised based on contracted prices and direct cost incurred. Revenue from product maintenance contracts are recognized on a straight-line basis over the delivery period.

Revenues and expenses from fixed-price design and build contracts where the outcome can be estimated reliably are recognised under percentage-of completion (POC) method. Estimates are revised and can result in decrease or an increase of estimated revenues and expenses and are included in statement of comprehensive income in the year in which circumstances that give rise to the revision become known to management.

Revenues from one-time-charge licensed software are recognized at the inception of licence term when all revenue recognition criteria have been met. Revenues from monthly licence charges are recognised on a subscription basis over the period that the client is entitled to use the licence. Revenues for maintenance, unspecified upgrades and technical support are recognised over the period such items are delivered.

The Group provides advice, assistance and other services relating to marketing, logistic, accounting, organization and administration to related parties. Majority of these services are provided on a time and material basis and revenue is recognised at the contractual rates as labour hours are delivered and expenses are incurred increased by 5% mark-up on own costs.

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement.

Revenue from dividends is recognized when the Group's right to receive the payment is established.

Interest revenue is recognized as interest accrues (using the effective interest rate which is the rate that discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, corporate commercial papers and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and which are subject to an insignificant risk of change in value. Investments that are classified as cash and cash equivalents are held only as means of settling liabilities and not as an investment.

q) Borrowings

Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings, are expensed in the period in which they are incurred, except those which directly attributable to the acquisition, construction or production of qualifying assets and are capitalised. Borrowings are initially recognized in the amount of the proceeds received net of transaction costs.

Mandatory convertible loan (MCL) is classified as equity and it is recognized at its nominal value which approximates its fair value.

r) Financial assets

All investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Available-for-sale financial assets are classified as current assets if management intends to realise them within 12 months after the statement of financial position date. All purchases and sales of investments are recognized on the settlement date.

Financial assets are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale financial assets and trading financial assets are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the statement of financial position date. Gains or losses on measurement to the fair value of available-for-sale financial assets are recognized in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the net profit or loss for the period.

Financial instruments are generally recognized as soon as the Group becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. A financial asset is derecognized when the cash is collected or the rights to receive cash from the assets have expired. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Securities obtained under agreements to resell ("reverse REPO agreements") are essentially guarantees or collateral for money held with banks and are not recorded in the balance sheet. The related amounts held by banks are recorded as secured deposits for maturities over three months or as cash equivalents for maturities under three months.

s) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as financial expense.

Provisions for termination benefits are recognized when the Group is demonstrably committed to a termination of employment contracts, that is when the Group has a detailed formal plan for the termination which is without realistic possibility of withdrawal. Provisions for termination benefits are computed based on amounts paid or expected to be paid in redundancy programs.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as prepayment.

A number of sites and other assets are utilised which are expected to have costs associated with de-commissioning. Provision is recognized for associated cash outflows which are substantially expected to occur at the dates of exit of the assets to which they relate, which are long-term in nature, primarily in periods up to 20 years from when the asset is brought into use.

t) Contingencies

Contingent assets are not recognized in the financial statements. They are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

u) Share-based payments

The cost of cash-settled and equity-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 39. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability for cash-settled and equity-settled transactions are recognised in equity. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognized in the statement of comprehensive income.

v) Events after reporting period

Post-year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

w) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

x) Dividend distribution

Dividend distributions to the Group's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

y) Earnings per share

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

z) Contributed equity

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

aa) Reclassifications

In 2017, the Group has changed the presentation of certain revenue within statement of comprehensive income. In order to reconcile the presentation of comparable period data with data presented in 2017, following positions in the financial statements for the year ended 31 December 2016 were reclassified:

- Statement of comprehensive income

	2016 As reported HRK millions	Impact on change HRK millions	2016 Restated HRK millions
Position			
Revenue	6,970	15	6,985
Other operating income	159	(15)	144

The Group believes that presentation of revenue from services to affiliated companies should be presented as revenue (e.g. provision of administrative services and shared service centres). The Group believes that third statement of financial position is not necessary to be presented because there is no any impact on the financial position of previous periods.

3. Business combinations

Crnogorski Telekom AD

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

Financial results for 2017 of Crnogorski Telekom are consolidated in the Group for entire year.

The predecessor carrying values of the assets and liabilities of Crnogorski Telekom as at the date of acquisition were:

	Value recognised at acquisition HRK millions
Assets	
Intangible assets	380
Goodwill	156
Property, plant and equipment	590
Non-current assets	68
Inventories	10
Trade receivables	232
Prepaid expenses and other current assets	29
Cash and cash equivalents	58
	1,523
Liabilities	
Long-term liabilities	37
Trade payables	239
Other liabilities and accrued expenses	104
	380
Net assets	**1,143**
Non-controlling interest	(231)
Difference recognised in equity	12
Purchase consideration transferred	924
Cash and cash equivalents acquired	(58)
Payment for acquisition of Crnogorski Telekom, net of cash acquired	**866**

OT-Optima Telekom d.d.

In 2014, the Group acquired voting shares in OT- Optima Telekom d.d. (Optima) through pre-bankruptcy settlement. Shares with a value of HRK 52 million were acquired directly through court decision by converting receivables into equity share as of 18 June 2014. An additional interest was acquired through the Mandatory Convertible Loan (MCL) instrument in the amount of HRK 69 million, as of 9 July 2014, hereby was converted into Optima equity pursuant to Management Board decision as of 23 July 2014 and approval of the Supervisory Board. These two transactions are treated as a single transaction in these consolidated financial statements.

The Group's total share in Optima amounts to 17.41% as of 31 December 2017 (31 December 2016: 19.02%). Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima.

The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for a participant in concentration with regard to management and control over Optima, among which is the implementation of a so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima is limited to a period of four years starting 18 June 2014.

On 14 June 2017 HT received the Decision of the Croatian Competition Agency by which the duration of temporary management rights of the company OT-Optima Telekom d.d. for HT is prolonged for an additional three-year period, that is, until 10 July 2021.

On the same date, the Croatian Competition Agency has also reached the decision on conditional approval of the merger pursuant to the Merger Agreement of the company H1 TELEKOM d.d. and OT-Optima Telekom d.d.

As of July 2021 control by HT is automatically terminated, without the possibility of extension. One year prior to such date, HT is required to commence the process of selling all of its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well.

The purchase consideration for H1 TELEKOM d.d. was a share issuance. The fair value of these shares was based on the HRK 7.31 share price on 30 June 2017 , which amounted to HRK 54 millions.

The fair value of the identifiable assets and liabilities of H1 TELEKOM d.d. as at the date of acquisition were:

	Fair value recognised at acquisition HRK millions
Assets	
Intangible assets	101
Property, plant and equipment	61
Trade receivables	23
Prepaid expenses and other current assets	1
Cash and cash equivalents	1
	187
Liabilities	
Long-term borrowings	33
Issued bonds	41
Long-term payables	38
Short-term borrowings	12
Short-term payables	78
Other liabilities and accrued expenses	19
	221
Total identifiable net assets at fair value	(34)
Goodwill arising on acquisition	**88**

Intangible assets acquired consist of customer relationships and brand.

The goodwill arising on acquisition is attributable to economies of scale which are expected to be realised mainly through cost reductions synergies within Optima.

After the date of acquisition and subsequent consolidation of H1 into the financial statements of the Group, H1 has contributed HRK 65 million of revenues and HRK 2 million of loss to the Group.

If the acquisition had taken place at the beginning of the year, Group consolidated revenue would have been HRK 7,806 million, and net profit of the Group would have been HRK 860 million for the year.

4. Segment information

The business reporting format of the Group for purpose of segment reporting is determined to be Residential, Business, Network and Support Function, Optima Telekom and Crnogorski Telekom as the Group's risks and rates of return are affected predominantly by differences in the market and customers. The segments are organised and managed separately according to the nature of the customers and markets that the services rendered, with each segment representing a strategic business unit that offers different products and services.

The Residential Segment includes marketing, sales and customer services, focused on providing mobile, fixed line telecommunications, electricity and TV distribution and services to residential customers.

The Business Segment includes marketing, sales and customer services, focused on providing mobile and fixed line telecommunications, electricity and systems integration services to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business in both fixed and mobile services.

The Network and Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. The Network and Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

The Optima Telekom segment includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount on the Miscellaneous revenue line. According to the restrictions introduced by the regulator, access to Optima Telekom revenue information is limited.

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

The Management Board, as the chief operating decision maker, monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on contribution margin or segment result (as calculated in the table below).

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

Management of the Group does not monitor assets and liabilities by segments and therefore this information has not been disclosed.Fully owned subsidiaries Iskon Internet, Combis, KDS, E-tours and M-Tele are consolidated within the respective operating segments to which they relate.

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

Year ended 31 December 2016	Residential HRK million	Business HRK million	Network and Support functions HRK million	Optima Telekom consolidated HRK million	Crnogorski Telekom consolidated HRK million	Total HRK million
Net revenue	3,750	2,794	-	441	-	6,985
Mobile revenue	1,870	951	-	-	-	2,821
Fixed revenue	1,841	1,093	-	441	-	3,375
System solutions revenue	-	677	-	-	-	677
Miscellaneous revenue	39	73	-	-	-	112
Usage related direct costs	(211)	(221)	-	(95)	-	(527)
Income and losses on accounts receivable	(8)	(21)	-	(3)		(32)
Contribution margin I	3,531	2,552	-	343	-	6,426
Non-usage related direct costs	(594)	(822)	-	(8)	-	(1,424)
Segment result (contribution margin II)	2,937	1,730	-	335	-	5,002
Other operating income	–	–	142	2	–	144
Other operating expenses	(389)	(371)	(1,550)	(100)	-	(2,410)
Depreciation, amortization and impairment of non-current assets	-	-	(1,401)	(96)	-	(1,497)
Operating profit	**2,548**	**1,359**	**(2,809)**	**141**	**-**	**1,239**

Year ended 31 December 2017

Net revenue	3,754	2,883	-	483	636	7,756
Mobile revenue	1,953	1,035	-	-	317	3,305
Fixed revenue	1,764	1,038	-	483	284	3,569
System solutions revenue	-	696	-	-	35	731
Miscellaneous revenue	37	114	-	-	-	151
Usage related direct costs	(202)	(228)	–	(84)	(54)	(568)
Income and losses on accounts receivable	(28)	(61)	–	(3)	(9)	(101)
Contribution margin I	3,524	2,594	-	396	573	7,087
Non-usage related direct costs	(626)	(929)	-	(11)	(110)	(1,676)
Segment result (contribution margin II)	2,898	1,665	-	385	463	5,411
Other operating income	–	–	166	4	4	174
Other operating expenses	(363)	(407)	(1,458)	(119)	(251)	(2,598)
Depreciation, amortization and impairment of non-current assets	–	–	(1,531)	(177)	(161)	(1,869)
Operating profit	**2,535**	**1,258**	**(2,823)**	**93**	**55**	**1,118**

Revenue by geographical area	2017 HRK million	2016 HRK million
Republic of Croatia	6,606	6,527
Rest of the world	1,150	458
	7,756	**6,985**

The majority of the Group's assets are located in Croatia. None of the Group's external customers represent a significant source of revenue.

5. Other operating income

	2017 HRK million	2016 HRK million
Gain from sale of non-current assets	72	36
Rental income	30	31
Income from penalties and damage compensations	11	16
Income from assets received free of charge	11	1
Liabilities write off	2	11
Sale of waste	2	2
Other income	46	47
	174	**144**

6. Merchandise, material and energy expenses

	2017 HRK million	2016 HRK million
Cost of goods sold	1,282	1,116
Energy costs	116	102
Energy sales costs	169	92
Cost of raw material and supplies	32	29
Arrangement sales cost	13	15
	1,612	**1,354**

7. Service expenses

	2017 HRK million	2016 HRK million
Domestic interconnection	253	242
International interconnection	316	284
Other services	206	217
	775	**743**

8. Depreciation, amortization and impairment of non-current assets

	2017 HRK million	2016 HRK million
Depreciation	1,036	884
Amortization	734	533
	1,770	1,417
Impairment loss	99	80
	1,869	**1,497**

Notes 15, 16 and 17 disclose further details on amortization and depreciation expense and impairment loss.

9. Employee benefits expenses

	2017 HRK million	2016 HRK million
Gross salaries without contribution	649	593
Taxes, contribution and other payroll costs	188	168
Contribution from gross salaries	163	145
Redundancy expenses (Note 27)	72	80
Long-term employee benefits	1	1
	1,073	**987**

10. Other expenses

	2017 HRK million	2016 HRK million
Licence cost	326	315
Maintenance services	324	287
Rent (Note 32)	162	151
Contract workers	132	114
Advertising	130	120
Selling commission	127	106
Provision of trade receivables – net (Note 21)	101	32
Non-income taxes and contribution	57	37
Call centre and customer care support	40	45
Postal expenses	38	37
Provisions for charges and risks	33	9
Education and consulting	31	31
Expenses related to customers acquisition	14	10
Daily allowances and other costs of business trips	14	13
Expenses from penalties and damage compensations	14	7
Discounts granted to customers	11	14
Insurance	11	12
Write down of inventories	5	5
Loss on disposal of fixed assets	2	1
Other operating charges	69	64
	1,641	**1,410**

11. Finance income

	2017 HRK million	2016 HRK million
Interest income	8	19
Foreign exchange gains	29	33
Income from sale of bonds	1	12
	38	**64**

12. Finance cost

	2017 HRK million	2016 HRK million
Interest expense	122	93
Foreign exchange loss	52	44
Other	–	7
	174	**144**

13. Income tax expense

a) Tax on profit	2017 HRK million	2016 HRK million
Current tax expense	217	256
Deferred tax expense	(37)	(22)
	180	**234**

b) Reconciliation of the taxation charge to the income tax rate	2017 HRK million	2016 HRK million
Profit before tax	984	1,162
Income tax at 18% (domestic rate) – (20% for 2016)	177	232
Tax effect of:		
Income not subject to tax	–	(3)
Expenses not deductible for tax purposes	8	6
Tax effects of tax loss carry forward for which no deferred income tax asset was recognised	(1)	(7)
Effect of different tax rates	(6)	–
Other	2	3
Impact of the tax rate reduction /i/	–	3
	180	**234**
Effective tax rate	18.29%	20.14%

/i/The reduction of Croatia's income tax rate from 20% to 18% is effective from 1 January 2017. As a result, the relevant deferred tax balances have been remeasured as at 31 December 2016.

The Group utilized a tax incentive in previous periods in respect of reinvesting profit and increasing the share capital in the same amount. If subsequently the capital that was increased by reinvested profit is decreased, this may result in a future tax liability for the Group. The Group believes a future tax liability will not arise in this regard.

Components and movements of deferred tax assets and liabilities are as follows:

Deferred tax assets and liabilities recognized in:	31 December 2017 HRK million	(charged) / credited in 2017 HRK million	Acquisition of Crnogorski Telekom HRK million	31 December 2016 HRK million	(charged) / credited in 2016 HRK million	31 December 2015 HRK million
Statement of comprehensive income						
Non-tax deductible provisions	8	(3)	–	11	(4)	15
Property, plant and equipment write down	45	13	–	32	20	12
Accrued interest on legal cases	5	4	–	1	(1)	2
Losses	14	14	–	–	–	–
Other	18	3	–	15	(2)	17
	90	31	–	59	13	46
Deferred income tax asset	**90**	**31**	**–**	**59**	**13**	**46**
Statement of comprehensive income						-
Purchase price allocation adjustments	27	(6)	–	33	(9)	42
Upward revaluation of fixed assets	17	–	17	–	–	–
	44	**(6)**	**17**	**33**	**(9)**	**42**
Other comprehensive income						
Actuarial gains and losses	3	–	–	3	–	3
Deferred income tax liability	**47**	**(6)**	**17**	**36**	**(9)**	**45**

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total deferred tax assets, current portion amounts to HRK 40 million.

Deferred tax asset arises on the property, plant and equipment impairment, on provision of impairment of receivables and inventories (materials, merchandise), and related to accruals and provisions and other temporary differences.

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of six years. The limitation period of six years starts with the year that follows the year of submission of tax declarations, i.e. 2019 for the 2017 tax liability.

The Group recognised deferred income tax assets of HRK 14 million in respect of losses amounting to HRK 80 million that can be carried forward against future taxable income. These losses relate to subsidiaries of the Group.

In 2015, the tax authorities started conducting a supervision review of HT's corporate tax and VAT returns for the year ended 2014. Currently issuing of the first instance resolution is expected.

Losses expires in:	HRK million
2019.	24
2021.	25
2022.	31
	80

14. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares or share options.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2017	2016
Profit for the year attributable to ordinary equity holders of the Company in HRK million	863	934
Weighted average number of ordinary shares for basic earnings per share	81,833,631	81,885,569
	HRK 10.55	**HRK 11.40**

15. Intangible assets

	Licences	Software	Goodwill	Other assets	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2016						
Cost	494	3,297	252	1,241	84	5,368
Accumulated amortization and impairment losses	(167)	(2,798)	–	(752)	–	(3,717)
Net book value	**327**	**499**	**252**	**489**	**84**	**1,651**
Year ended 31 December 2016						
Opening net book value	327	499	252	489	84	1,651
Additions	2	169	–	330	110	611
Transfers	–	60	–	24	(65)	19
Amortization charge	(36)	(236)	–	(261)	–	(533)
Impairment loss	–	(10)	–	–	–	(10)
Net book value	**293**	**482**	**252**	**582**	**129**	**1,738**
As at 31 December 2016						
Cost	497	3,361	252	1,300	129	**5,539**
Accumulated amortization and impairment losses	(204)	(2,879)	–	(718)	–	(3,801)
Net book value	**293**	**482**	**252**	**582**	**129**	**1,738**
Year ended 31 December 2017						
Opening net book value	293	482	252	582	129	1,738
Acquisition of CT (Note 3)	183	105	156	19	73	536
Acquisition of H1 (Note 3)	–	1	88	100	–	189
Additions	14	221		476	151	862
Transfers	62	102	–	(40)	(112)	12
Amortization charge	(82)	(277)	–	(375)	–	(734)
Impairment loss	–	(1)	(40)	(23)	–	(64)
Net book value	**470**	**633**	**456**	**739**	**241**	**2,539**
As at 31 December 2017						
Cost	757	3,775	496	1,849	241	7,118
Accumulated amortization and impairment losses	(287)	(3,142)	(40)	(1,110)	-	(4,579)
Net book value	**470**	**633**	**456**	**739**	**241**	**2,539**

The intangible assets of the Group as at 31 December 2017 include five licences for use of the radio frequency spectrum (Notes 2.4. e) and 38 b)).

Other assets mainly consist of brand, customer relationships, capitalised content contracts and capitalised cost of electronic communication infrastructure.

Assets under construction primarily relate to software and the various licences for the use of software.

Intangible assets with indefinite useful life consist of brand name related to Optima Telekom d.d. Carrying value as at 31 December 2017 is HRK 61 million (31 December 2016: HRK 61 million).

Additions of intangible assets

Major additions in 2017 relate to capitalised content costs in the amount of HRK 340 million, application, system and network technology software and user licences in the amount of HRK 233 million and capitalised cost of electronic communication infrastructure in amount of HRK 137 million.

Impairment loss

During 2017, the Group recognized an impairment loss for intangible assets of HRK 64 million (2016: HRK 10 million).

Disposal of intangible assets

The disposal of intangible assets primarily relates to the disposal of capitalized ECI costs in gross amount of HRK 5 million and software HRK 15 million (2016: HRK 458 million).

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. An operating segment-level summary of the goodwill allocation is presented below:

	31 December 2017 HRK million	31 December 2016 HRK million
Residential	55	55
Business	107	107
Optima Telekom consolidated	138	90
Crnogorski Telekom	156	–
	456	**252**

The key assumptions used for fair value less cost of disposal calculations are as follows:

	Optima Telekom consolidated		Crnogorski Telekom	Residential		Business	
	31 December 2017	31 December 2016	31 December 2017	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	9.53%	9.79%	8.42%	8.96%	8.93%	8.96%	8.93%

The recoverable amount of a CGU is determined based on fair value less cost of disposal calculations. The key assumptions reflect past experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and pre-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planed internal products. Forecast period is 10 years.

Impairment testing of brand

Optima has registered the name and trade mark "Optima" as intellectual property rights. Brand is an indefinitive – lived asset, and it is tested for impairment annually using the Relief from Royalty method. The brand value represents the net present value of the projected brand earnings, discounted using the pre-tax discount rate on projected cash flows. The net present value calculation comprises both the explicit five and a half year projections and the terminal period, as this reflects the brands ability to create revenues in perpetuity. The growth rate of projected cash flows and the discount rate used is the same as the key assumptions utilised in the impairment testing of goodwill (reflected above).

16. Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
As at 1 January 2016					
Cost	2,242	12,626	1,036	476	16,380
Accumulated depreciation and impairment losses	(1,308)	(8,652)	(862)	-	(10,822)
Net book value	**934**	**3,974**	**174**	**476**	**5,558**
Year ended 31 December 2015					
Opening net book value	934	3,974	174	476	5,558
Additions	24	606	28	339	997
Transfers	27	334	21	(390)	(8)
Disposals	(18)	(1)	-	-	(19)
Depreciation charge	(80)	(734)	(68)	-	(882)
Impairment loss	-	(70)	-	-	(70)
Net book value	**887**	**4,109**	**155**	**425**	**5,576**
As at 31 December 2016					
Cost	2,274	12,967	978	425	16,644
Accumulated depreciation and impairment losses	(1,387)	(8,858)	(823)	-	(11,068)
Net book value	**887**	**4,109**	**155**	**425**	**5,576**
Opening net book value	**887**	**4,109**	**155**	**425**	**5,576**
Acquisition of CT (Note3)	153	384	6	47	590
Acquisition of H1 (Note 3)	1	56	-	4	61
Additions	28	581	44	363	1,016
Transfers	35	290	12	(349)	(12)
Disposals	(19)	(1)	-	-	(20)
Depreciation charge	(81)	(886)	(68)	-	(1,035)
Impairment loss	-	(36)	-	-	(36)
Net book value	**1,004**	**4,497**	**149**	**490**	**6,140**
As at 31 December 2017					
Cost	2,472	14,090	940	490	17,992
Accumulated depreciation and impairment losses	(1,468)	(9,593)	(791)	-	(11,852)
Net book value	**1,004**	**4,497**	**149**	**490**	**6,140**

16. Property, plant and equipment (continued)

Included within assets under construction of the Group are major spare parts of HRK 5 million (31 December 2016: HRK 60 million). Beginning in 2001, the Group has performed additional procedures which have provided support for the existence of legal title to land and buildings transferred from HPT s.p.o. under the Separation Act of 10 July 1998. The Group is still in the process of formally registering this legal title. The Group does not have any material property, plant and equipment held for disposal.

Additions of property, plant and equipment

Major additions in 2017 relate to infrastructure and network equipment.

Impairment loss

In 2017, the Group recognized an impairment loss on property, plant and equipment of HRK 36 million (2016: HRK 70 million) mostly relating to change of equipment due to transfer to newer technology.

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 405 million (2016: HRK 751 million).

Ownership over ducts

Although assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company, by virtue of the Law on Separation of Croatian Post and Telecommunication and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) which may be relevant to the issue of proving the ownership towards third parties. Some claims of ownership over these assets by the local authorities (the City of Zagreb) may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for such ducts. However, HT management believes the likelihood of occurrence of such circumstances is remote. Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2017 is HRK 862 million (31 December 2016: HRK 857 million).

Leased assets

Equipment includes the following amounts where the Group is a lessee under a finance lease:

	31 December 2017 HRK million	31 December 2016 HRK million
Cost	97	84
Accumulated depreciation	(41)	(19)
Net book value	**56**	**65**

17. Investment property

	HRK million
As at 1 January 2016	
Cost	104
Accumulated depreciation	(47)
Net book value	**57**
Year ended 31 December 2016	
Opening net book value	57
Transfers to property, plant and equipment	(11)
Depreciation charge	(2)
Net book value	**44**
As at 31 December 2016	
Cost	83
Accumulated depreciation	(39)
Net book value	**44**
Year ended 31 December 2017	
Opening net book value	44
Additions	–
Disposals	(8)
Depreciation charge	(1)
Net book value	**35**
As at 31 December 2017	
Cost	60
Accumulated depreciation	(25)
Net book value	**35**

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

18. Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises (financial information for 2017 represents estimations as HT d.d. Mostar and HP d.o.o. Mostar did not issue their financial statements up to the date of issuing consolidated financial statements of HT Group):

	31 December 2017 HRK million	31 December 2016 HRK million
Joint venture HT d.d. Mostar:		
As at 1 January	375	397
Prior period correction of error	–	(22)
Share of profit	2	3
Dividends paid	–	(3)
As at 31 December	377	375
Associate HP d.o.o. Mostar:		
As at 1 January	2	2
Share of (loss) / profit	–	1
(Impairment loss) / reversal of impairment loss	–	(1)
As at 31 December	2	2
	379	**377**

a) Investment in joint venture

The Group has an ownership interest of 39.1% in its joint venture HT d.d. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of this company is provision of telecommunication services.

All decisions made by the Management Board and all decisions made by the Supervisory Board have to be approved by both of the majority shareholders. Therefore, the investment is classified as a jointly controlled entity. The rest of the company is mainly owned by the Federation of Bosnia and Herzegovina (50.10%).

The Group's share in HT d.d. Mostar profit for the year ended 31 December 2017 is recognized in the statement of comprehensive income in the amount of HRK 2 million (2016: HRK 3 million). In 2016, HT adjusted net book value of investment in HT d.d. Mostar for HRK 22 million related to correction of the Group's share in HT d.d. Mostar profits in prior periods as a result of misstatement of deferred subsidised customer costs in HT d.d, Mostar financial statements.

In 2017, HT did not receive any dividend from HT d.d. Mostar (2016: HRK 3 million).

b) Investment in associate

The Group has an ownership interest of 30.29% in its associate HP d.o.o. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of the associate is provision of postal services.

Summarised financial information for investments accounted for using the equity method is as follows:

Summarised statement of financial position:	31 December 2017 HRK million	31 December 2016 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Current		
Cash and cash equivalents	121	107
Other current assets	151	169
Total current assets	**272**	**276**
Financial liabilities	1	1
Other current liabilities	190	221
Total current liabilities	**191**	**222**
Non-current		
Non-current assets	**1,183**	**1,204**
Financial liabilities	10	10
Other liabilities	14	10
Total non-current liabilities	**24**	**20**
Net assets	**1,240**	**1,238**
Associate HP d.o.o. Mostar:		
Current		
Cash and cash equivalents	15	15
Other current assets	20	12
Total current assets	**35**	**27**
Financial liabilities	–	–
Other current liabilities	13	11
Total current liabilities	**13**	**11**
Non-current		
Non-current assets	**63**	**70**
Financial liabilities	–	–
Other liabilities	1	2
Total non-current liabilities	**1**	**2**
Net assets	**84**	**83**

Summarised statement of comprehensive income:	2017 HRK million	2016 HRK million
Joint venture HT d.d. Mostar:	Estimated	Actual
Revenue	803	854
Depreciation and amortisation	(223)	(223)
Interest income	9	4
Interest expense	(1)	(1)
Pre-tax profit	**5**	**(29)**
Income tax expense	-	-
Net income	5	(29)
Dividends received		**3**
Associate HP d.o.o. Mostar:		
Revenue	94	97
Depreciation and amortisation	(4)	(3)
Interest income	–	1
Interest expense	–	–
Pre-tax gain / (loss)	**1**	**2**
Income tax expense	**–**	**–**
Net income	**1**	**2**
Dividends received		**–**

Reconciliation of summarised financial information	31 December 2017 HRK million	31 December 2016 HRK million
Joint venture HT d.d. Mostar		
Opening net assets 1 January	1,238	1,244
Profit for the period	5	29
Dividends paid	–	(8)
Foreign currency translation	(31)	(27)
Closing net assets	**1,240**	**1,238**
Interest in joint venture 39.10%	485	484
Foreign currency translation	12	11
Impairment	(120)	(120)
Carrying value	**377**	**375**
Opening net assets 1 January	84	82
Profit / (loss) for the period	1	2
Foreign currency translation	(1)	–
Closing net assets	**84**	**84**
Interest in associates 30.29%	26	26
Foreign currency translation	1	1
Impairment	(25)	(25)
Carrying value	**2**	**2**

19. Available-for-sale financial assets

Available-for-sale financial assets, at fair value, include the following:

Issuer	Credit rating	Currency	Maturity	31 December 2017 HRK million	31 December 2016 HRK million
Domestic bond:					
Government Republic of Croatia	BB	HRK	8 February 2017	–	35
Foreign bonds:					
Deutsche Telekom	BBB+	EUR	3 April 2020	945	946
Other				3	14
				948	**995**
Non-current				948	949
Current				–	46
				948	**995**

Interest rate on domestic bond is 4.75%. Interest rate on foreign bond is 0.021%.

The estimated fair value of investments in bonds at 31 December 2017 is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belongs to level 1 under the financial instruments fair value hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2017.

20. Inventories

	31 December 2017 HRK million	31 December 2016 HRK million
Merchandise	105	86
Inventories and spare parts	23	25
	128	**111**

21. Trade and other receivables

	31 December 2017 HRK million	31 December 2016 HRK million
Trade receivables	128	95
Loans to employees	79	–
Other receivables	41	26
Non-current	248	121
Trade receivables	1,551	1,276
Loans to employees	21	–
Other receivables	58	52
Current	1,630	1,328
	1,878	**1,449**

During 2013, the Group entered into several prebankruptcy settlements with its debtors which stipulate that part of reported current trade receivables is converted to non-current receivables (31 December 2017: HRK 20 million) with maturities up to 5 years.

The aging analysis of trade receivables is as follows:

	Total	Neither past due	Past due but not impaired				
		nor impaired	< 30 days	31-60 dana	61-90 dana	91-180 dana	>180 dana
	HRK million	HRK million	HRK million	milijuni kuna	milijuni kuna	milijuni kuna	milijuni kuna
31 December 2017	1,551	1,220	154	58	35	62	22
31 December 2016	1,276	894	278	40	17	36	11

As at 31 December 2017, trade receivables with a nominal value of HRK 1,243 million (31 December 2016: HRK 1,068 million) were deemed impaired and fully provided for, and refer to mainly receivable past-due over 180 days.

Movements in the provision for impairment of receivables were as follows:

	2017 HRK million	2016 HRK million
As at 1 January	1,068	1,117
Acquisition of Crnogorski Telekom	152	–
Acquisition of H1	27	–
Charge for the year (Note 10)	152	90
Unused amounts reversed (Note 10)	(51)	(58)
Receivables written-off	(105)	(81)
As at 31 December	**1,243**	**1,068**

22. Prepayments

Prepayments mainly consist of prepaid liabilities for concession fees towards regulator in amount of HRK 178 million (2016: HRK 177 million).

23. Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:	31 December 2017 HRK million	31 December 2016 HRK million
Cash on hand and balances with banks	1,493	1,261
Commercial papers	1,080	982
Time deposits with maturity less than 3 months	425	433
Secured deposits (reverse REPO agreements)	154	–
	3,152	**2,676**

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

	31 December 2017 HRK million	31 December 2016 HRK million
HRK	2,843	1,175
EUR	254	1,406
USD	66	76
BAM	23	19
RSD	3	–
	3,189	**2,676**

c) Time deposits with maturities more than 3 months

	31 December 2017 HRK million	31 December 2016 HRK million
Foreign bank	37	–
Domestic banks	–	–
	37	**–**

d) Guarantee deposits

	Current		Non-current	
	31 December 2017 HRK million	31 December 2016 HRK million	31 December 2017 HRK million	31 December 2016 HRK million
Foreign bank	2	11	6	26
Domestic banks	1	1	–	–
	3	**12**	**6**	**26**

e) Secured deposits (reverse REPO agreements)

Issuer	Currency	Maturity	31 December 2017 HRK million	31 December 2016 HRK million
Reverse REPO agreements (Note 35 g):				
Erste Steiermärkische Bank d.d.	HRK	16 January 2017	–	160
Raiffeisen Bank Austria d.d.	HRK	14 February 2017	–	118
Erste Steiermärkische Bank d.d.	HRK	23 January 2017	–	157
Erste Steiermärkische Bank d.d.	HRK	24 January 2017	–	172
Raiffeisen Bank Austria d.d.	HRK	24 March 2017	–	79
Raiffeisen Bank Austria d.d.	HRK	9 May 2017	–	76
Raiffeisen Bank Austria d.d.	HRK	18 May 2017	–	75
Erste Steiermärkische Bank d.d.	HRK	28 April 2017	–	82
Erste Steiermärkische Bank d.d.	HRK	5 May 2017	–	127
Erste Steiermärkische Bank d.d.	HRK	21 April 2017	–	85
Erste Steiermärkische Bank d.d.	HRK	18 January 2018	157	–
			157	**1,131**

Interest rates at 31 December 2017 on reverse REPO agreements range up to 0.1%.

24. Trade payables and other liabilities

	31 December 2017 HRK million	31 December 2016 HRK million
Content contracts	147	52
ECI contracts	119	79
Licence for radio frequency spectrum	16	9
Other	8	8
Non-current	290	148
Trade payables	1,646	1,278
Content contracts	201	164
VAT and other taxes payable	120	29
ECI contracts	63	45
Payroll and payroll taxes	63	64
Liabilities related to pre-bankruptcy settlements	18	–
Licence for radio frequency spectrum	(3)	9
Other	47	26
Current	2,155	1,615
	2,445	**1,763**

25. Deferred income

	31 December 2017 HRK million	31 December 2016 HRK million
Odgođeni prihod od najma opreme	21	19
Dugoročni dio	21	19
Prepaid vouchers	50	45
Deferred income for assets received free of charge	11	20
Connection fee	5	–
Other	23	24
Current	**89**	**89**
	110	**108**

26. Employee benefit obligations

Long-term employee benefits include retirement payments in accordance with the collective agreement.. Long-term employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognized as other comprehensive income in the period in which they occur.

Long-term employee benefits include a compensation for the employees described in Note 39.

The movement in the liability recognized in the statement of financial position was as follows:

	2017 HRK million	2016 HRK million
As at 1 January	**12**	**12**
Acquisition of Crnogorski Telekom (Note 3)	4	–
LTIP – Variable II (Note 39)	2	3
Current portion of employee benefits obligations (Note 27)	(4)	(3)
Service costs	0	1
Benefit paid	(1)	(1)
Actuarial gains	–	–
As at 31 December	**13**	**12**

Retirement	1	2
Jubilee awards	2	–
LTIP – Variable II	10	10
	13	**12**

As at 31 December 2017, the current portion of the provision for LTIP programme amounts to HRK 4 million.

The principal actuarial assumptions used to determine retirement benefit obligations as at 31 December were as follows:

	2017 in %	2016 in %
Discount rate (annually)	3.00	3.00

27. Provisions for other liabilities and charges

	Legal claims HRK million	Asset retirement obligation HRK million	Variable salary HRK million	Redundancy HRK million	Unused vacation HRK million	Total HRK million
As at 1 January 2017	**20**	**22**	**69**	**17**	**5**	**133**
Additions	39	–	87	72	5	203
Acquisition of Crnogorski Telekom	1	–	–	–	–	1
Acquisition of H1	–	–	–	–	1	1
Utilisation	(23)	–	(92)	(59)	(5)	(179)
Reversals	(2)	–	–	–	(1)	(3)
Current portion of employee benefits obligations (Note 26)	–	–	4	–	–	4
Interest costs	–	3	–	–	–	3
As at 31 December 2017	**35**	**25**	**68**	**30**	**5**	**163**
Non-current	35	25	–	–	–	60
Current	–	–	68	30	5	103
	35	**25**	**68**	**30**	**5**	**163**

a) Legal claims
As at 31 December 2017, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

b) Asset retirement obligation
Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year.

c) Redundancy
Redundancy expenses and provisions include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2017.

28. Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2017 HRK million	31 December 2016 HRK million
81,888,535 ordinary shares without par value	9,823	9,823

The number of shares in issue remained unchanged between 1 January 1999 and 31 December 2017.

29. Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued share capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the issued capital they can also be used to increase the issued share capital of the Group. These reserves are not distributable.

30. Treasury shares

In 2017, the Group started with acquisition of treasury shares due to introduction of share buy-back program which will last until 20 April 2021. The Group will withdraw shares without nominal value without reduction of share capital

Within this program total of 216,005 shares are bought as of 31 December 2017 in total value of HRK 38 millions. Reserve for purchased own shares amounts to HRK 38 million (2016: nil) and is not distributable.

The Group holds 218,471 own shares as at 31 December 2017 (31 December 2016: 2,966).

31. Retained earnings

In 2017, the Group paid a dividend of HRK 6.00 per share (2016: HRK 6.00) for a total of HRK 494 million (2016: HRK 491 million).

32. Commitments

a) Operating lease commitments
The Group has operating lease commitments in respect of buildings, land, equipment and cars. Operating lease charges:

	2017 HRK million	2016 HRK million
Current year expense (Note 10)	162	151

Future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2017 HRK million	31 December 2016 HRK million
Within one year	133	136
Between 1 and 5 years	272	302
Greater than 5 years	101	99
	506	**537**

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

	31 December 2017 HRK million	31 December 2016 HRK million
Intangible assets	218	108
Property, plant and equipment	670	554
	888	**662**

33. Contingencies

At the time of preparation of these consolidated financial statements, there are outstanding claims against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which a provision was established (Note 27).

The Group vigorously defends all of its legal claims and potential claims, including regulatory matters, third party claims and employee lawsuits. There is no history of significant settlements in Croatia under either the Competition Law or imposed by Misdemeanour Courts. Due to the lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the possible outcome of these cases.

Competition Agency proceedings regarding retransmission of football games

Competition Authority initiated, ex officio, by its decision dated 3 January 2013, formal proceedings against HT relating to potential abuse of dominant position in the market of distribution of premium sport content due to the fact that ArenaSport channels and premium sport content (such as Croatian national league – MAXtv Prva liga, UEFA Champions League and UEFA Europe League) are available only through MAXtv service.

The proceeding is pending.

The pecuniary fine pursuant to the Competition Act is limited to up to 10% of yearly turnover of the Company in the last year for which financial reports have been concluded. Also, according to the Agency´s practice, the fine is usually connected with up to 30% of the turnover acquired from the services provided on the relevant market. On the basis of the results for 2017, 30% of the revenue of MAXtv services would amount to HRK 91 million.

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 16), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range of up to HRK 390 million plus interest.

This law suit is based on a claim that HT is using DTI owned by the City of Zagreb without any remuneration.

On 10 December 2012, the Company received the partial interlocutory judgement and partial judgement by which it was determined that HT is obliged to pay to ZHZDG the fee for usage of the DTI system, and that until the legal validity of this partial interlocutory judgment, litigation will be stopped regarding the amount of the claim. Furthermore, the claim in the part concerning the establishment of the ownership of the City of Zagreb over DTI and other communal infrastructure for laying telecommunication installations on the area of the City of Zagreb for the purpose of communication-information systems and services was rejected. Decision on the litigation costs was left for later judgment. On 21 December 2012, the Company submitted the appeal against this judgment.

On 4 August 2015 the second instance County Court of Varaždin accepted HT's remedy and returned the case back to the first instance court proceeding within which the plaintiff will need to justify its right to file a claim before the court (i.e. to raise an action/ locus standi) as well as to justify and substantially evidence his claim against HT – what kind of DTI, where/ on which location, how and during what period was used by HT.

In June 2016, the plaintiff raised its claim for the additional amount of HRK 90 million; that is fee for usage of the DTI system in the area of Zagreb for period as of 20 June 2011 until 20 June 2012, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 480 million, plus interest.

In June 2017, the plaintiff has raised its claim for the additional amount of HRK 90 million; for period as of 20 June 2012 until 20 June 2013, as to avoid statute of limitation for this period. Therefore, the claim amounts now altogether to HRK 570 million, plus interest.

Based on the merit and development of the above legal proceedings, the Company concluded that the likelihood of an obligation arising from these legal cases is remote and that there was no need to present a provision related to these cases in these financial statements.

34. Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by 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 during 2017 and 2016. Further, DTAG provided technical assistance services to the Group of HRK 3 million (2016: HRK 7 million).

The main transactions with related parties during 2017 and 2016 were as follows:

	Revenue		Expenses	
Related party:	2017 HRK million	2016 HRK million	2017 HRK million	2016 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	100	82	123	127
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	32	7	25	6
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	27	16	18	12
T-Mobile Austria GmbH, Austria	10	3	4	3
T-Systems International GmbH, Germany	2	4	5	14
Magyar Telekom Nyrt., Hungary	6	6	8	5
Slovak Telecom a.s., Slovakia	18	13	–	–
T-Mobile Czech	6	–	1	–
T-Mobile Polska	6	2	–	–
T-Mobile Nederlands	5	2	1	–
Deutsche Telekom IT	4	1	10	–
DT Europe Holding	4	–	6	–
Others	8	9	17	10
	228	**145**	**218**	**177**

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

	Receivables		Payables	
Related party:	31 December 2017 HRK million	31 December 2016 HRK million	31 December 2017 HRK million	31 December 2016 HRK million
Ultimate parent				
Deutsche Telekom AG, Germany	9	21	115	159
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	–	–	11	3
Magyar Telekom, Hungary	–	1	2	1
Albanian Telecom	–	–	13	–
Slovak Telecom a.s., Slovakia	4	10	–	–
T-Systems International GmbH, Germany	5	–	13	6
Others	9	4	9	2
	27	**36**	**163**	**171**

At the year end the Group holds investment in commercial paper of ultimate parent in the amount of HRK 1,080 millions (31 December 2016: HRK 982 millions) (Note 23) and investment in bond of ultimate parent in the amount of HRK 945 millions (31 December 2016: 946 millions) (Note 19).

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Group as well.

The Group did not execute as part of its normal business activities any transactions that were individually material in the 2017 or 2016 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

Compensation of the members Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1,5 times of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, remuneration is the amount of 1.25 times of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.5 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, remuneration is the amount of 1.25 times of the average monthly net salary of the employees of the Company paid in the preceding month.

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

In 2017, the Group paid a total amount of HRK 0.9 million (2016: HRK 0.8 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 2017, the total compensation paid to key management personnel of the Group amounted to HRK 46 million (2016: HRK 38 million). 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.

Compensation paid to key management personnel includes:	2017 HRK million	2016 HRK million
Short-term benefits	46	38
	46	**38**

35. Financial risk management objectives and policies

The Group is exposed to international service-based markets. As a result, the Group can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 21) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2017, the Group had business transactions with thirty banks (2016: seventeen banks). The Group held cash and deposits in nine banks almost exclusively. For five domestic banks with foreign ownership, the Group received guarantees for deposits placed from parent banks which have a minimum rating of BBB+ or guarantees in form of low-risk government securities. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic and foreign markets and on contacts with the banks on a daily basis.

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	31 December 2017 HRK million	31 December 2016 HRK million
Trade receivables for rendered telecom services to domestic customers	983	768
Trade receivables for rendered telecom services to foreign customers	210	45
Other trade receivables	27	81
Current	**1,220**	**894**
Trade receivables from prebankruptcy settlements	20	32
Trade receivables for merchandise sold	128	63
Loans to employees	24	–
Other receivables	76	26
Non-current	**248**	**121**

Other current receivables are neither past due nor impaired. The credit quality of all other financial assets (see Note 36): the total carrying amount as at the balance sheet date is considered neither past due nor impaired.

b) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.

Any excess cash is invested mostly in available-for-sale financial assets.

The amounts disclosed in the table are the contractual undiscounted cash flows:

31 December 2017	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	2.059	17	–	–
Capitalized content rights	73	185	167	–
Finance lease	–	1	4	–
Bank borrowings	27	22	148	125
Capitalized ECI rights	21	62	160	51
Liabilities from pre-bankruptcy settlement	12	–	38	–
Issued bond	2	18	96	9
Other liabilities	57	2	83	16
31 December 2016				
Trade and other payables	1,430	13	–	–
Capitalized rights	58	169	69	–
Finance lease	–	13	44	1
Bank borrowings	3	21	120	151
Capitalized ECI rights	15	46	87	53
Liabilities from pre-bankruptcy settlement	–	–	–	–
Issued bond	2	10	69	8
Other liabilities	20	10	58	24

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's available-for-sale financial assets, cash, cash equivalents, time deposits and bank borrowings.

The following table demonstrates the sensitivity of the Group's profit post tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate investments).

	Increase/decrease in basis points	Effect on profit post tax HRK million
Year ended 31 December 2017		
HRK	+100	13
	-100	(13)
EUR	+100	10
	-100	(10)
Year ended 31 December 2016		
HRK	+100	16
	-100	(16)
EUR	+100	19
	-100	(19)

d) Foreign currency risk

The Group's functional currency is the Croatian Kuna. Certain assets and liabilities are denominated in foreign currencies which are translated at the valid middle exchange rate of the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, available-for-sale financial assets and cash and equivalents, receivables and payables are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase/decrease in EUR rate	Effect on profit post tax HRK million
Year ended 31 December 2017	+3 %	39
	-3 %	(39)
Year ended 31 December 2016	+3 %	62
	-3 %	(62)

e) Fair value estimation

The fair value of securities included in available-for-sale financial assets is estimated by reference to their quoted market price at the statement of financial position date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, non-current receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued share capital, reserves and retained earnings and totals HRK 12,573 million as at 31 December 2017 (31 December 2016: HRK 12,047 million). The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016 (Notes 28 and 31).

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

	Credit rating	31 December 2017 HRK million	31 December 2016 HRK million
Foreign bonds:			
Government of Germany	AAA	–	156
Government of Austria	AA+	159	797
Government of France	AA	–	200
Bank of America Corporation	A	78	–
Goldman Sachs Group Inc	A	77	–
		314	**1,153**

All above stated values are fair market values. The accepted collateral is level 1 under IFRS13 categorisation.

h) Offsetting

The following financial assets and financial liabilities are subject to offsetting:

	Trade receivables		Trade payables	
	31 December 2017 HRK million	31 December 2016 HRK million	31 December 2017 HRK million	31 December 2016 HRK million
Gross recognised amounts	391	106	578	240
Offsetting amount	(114)	(60)	(114)	(60)
	277	**46**	**464**	**180**

36. Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

	Carrying amount		Fair value	
	31 December 2017 HRK million	31 December 2016 HRK million	31 December 2017 HRK million	31 December 2016 HRK million
Financial assets:				
Cash and cash equivalents	3,152	2,676	3,152	2,676
Guarantee deposits, current	3	12	3	12
Time deposits	37	–	37	–
Available-for-sale assets, non-current	948	949	948	949
Available-for-sale assets, current	–	46	–	46
Secured deposits	157	1,131	157	1,131
Guarantee deposits, non-current	6	26	6	26
Trade receivables – current and non-current	1,679	1,371	1,679	1,371
Loans to employees – current and non-current	100	–	100	–

Fair value of financial assets other than available-for-sale assets are classified as level 3 fair value in the fair value hierarchy due to inclusion of an unobservable inputs such as counterparty credit risk. Available-for sale assets belong to level 1 (Note 19). The fair values in level 3 of the fair value hierarchy were estimated to be equal to their carrying amount.

37. Borrowings

	Carrying amount		Fair value	
	31 December 2017 HRK million	31 December 2016 HRK million	31 December 2017 HRK million	31 December 2016 HRK million
Bank borrowings	212	198	212	198
Issued bond	90	64	90	64
Finance lease	4	42	4	42
Non-current	**306**	**304**	**306**	**304**
Bank borrowings	36	9	36	9
Issued bond	16	7	16	7
Finance lease	2	13	2	13
Current	**54**	**29**	**54**	**29**
Total	**360**	**333**	**360**	**333**

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 4.52% at 31 December 2017 (31 December 2016: 4.53%).

Currency breakdown of borrowings and finance lease

	31 December 2017 HRK million	31 December 2016 HRK million
HRK	159	75
EUR	201	258
	360	**333**

Issued bond

Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2017 the Group will pay semi-annual interest at interest rate of 5.25% per year, and principal will be repaid from 30 May 2017 to 30 May 2022.

Through acquisition the Group acquired the obligation for issued bonds in nominal value of HRK 41 million that will be paid in 5 annually instalments at interest rate of 4.5% and principal will be repaid from 27 January 2019 to 27 January 2023

Finance lease liability breakdown

	31 December 2017 HRK million	31 December 2016 HRK million
Commitments in relation to finance lease are payable as follows:		
Within one year	1	13
Later than one year but not later than five years	4	44
Later than five years	–	1
Minimum lease payments	**5**	**58**
Future finance changes	(1)	(2)
Recognised as a liability	**4**	**56**
The present value of finance lease liabilities is as follows:		
Within one year	1	13
Later than one year but not later than five years	3	42
Later than five years	–	1
Minimum lease payments	**4**	**56**

38. Authorization for Services and Applicable Fees

The Company is party to the following Authorization for Services, none of which are within the scope of IFRIC 12:

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

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, five Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13, 71/14 and 72/17. Pursuant to Article 32 of the Law on Electronic Communications, the Company is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 5 May 2017:

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,

- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- premium rate and freephone services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,
- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers in the Republic of Croatia, and
- other services.

On 26 February 2013 the Croatian Regulatory Authority for Network Industries (HAKOM) issued to the Company special authorization to perform account reconciliation of accounts for the provision of electronic communications services in maritime for a period of 10 years i.e. till 26 February 2023.

In accordance with HAKOM's decision of 23 September 2015, the Company was designated as the Universal services provider in the Republic of Croatia for a period of four years with the obligation to provide following universal services during the mentioned period:

- access to the public communications network and publicly available telephone services at a fixed location, allowing for the voice communications, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access, taking into account prevailing technologies used by the majority of subscribers as well as the technological feasibility,
- setting up of public pay telephones or other publicly available access points for the public voice service on public places accessible at any time, in accordance with the reasonable needs of end-users in terms of the geographical coverage, the quality of services, the number of public pay telephones or other publicly available access points for the public voice service and their accessibility for disabled persons,
- special measures for disabled persons, including access to services under 1 and 2 above, including the access to emergency services, equivalent to that enjoyed by other end-users, and
- special pricing systems adjusted to the needs of the socially disadvantaged groups of end-users, that comprise the service under item 1 above.

The Company is no longer designated as universal service operator for service access for end-users to at least one comprehensive directory of all subscribers of publicly available telephone services, however, the Company shall continue to provide the service on commercial basis.

b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Company the following licenses for use of the radio frequency spectrum for public mobile electronic communications networks:

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024, and
- licence for the use of radio frequency spectrum in 1800 MHz frequency band with the validity from 22 December 2013 until 18 October 2024.

HAKOM also issued to the Company licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2015 until 11 August 2020.

c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Group is obliged to pay the fees for the use of addresses and numbers, radio frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the sea, transport and infrastructure The said regulations prescribe the calculation and the amount of fees. These fees are paid for the current year or one year in advance (in case of fees for usage of radio frequency spectrum).

In 2017, the Group paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the sea, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14, 147/14, 138/15 and 77/16)
- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and
- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 33/17).

d) Audiovisual and electronic media services

Pursuant amendment of the Law on audiovisual activities (Official Gazette No. 76/07 and 90/11), the Group is obliged to pay the fee in the amount of 2% of the total annual gross income generated from the performing of audiovisual activities on demand for the purpose of the implementation of the National Programme.

Also, the Group (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

Pursuant to the Law on Electronic Media, (Official Gazette No. 153/09, 84/11, 94/13 and 136/13), the Group is obliged to pay upon the request the fee of 0.5% of the annual gross revenues realized from the provision of audiovisual media services and the electronic publication services.

Licences are not issued to all members of the Group.

e) Electronic communications infrastructure and associated facilities

The Company, as the infrastructure operator, is obligated to pay fees for the right of way in amount that the Company contracted with land owners or accordance with the Law on Electronic Communications. The fees for the right of way are defined by the Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 152/11, 151/14 and 95/17) that was adopted by HAKOM in December 2011 and became effective as of 4 January 2012. The fee is calculated according to the area of land used for the installation of electronic communications infrastructure and associated facilities. The last amendment of the Ordinance on the Certificate and Fees for the Right of Way regulates that the fee is to be paid as of the day of the receipt of request for payment of the fee and not as of the day of issuance of the Certificate.

f) Supply of electricity

Croatian Energy Regulatory Agency (HERA) has reissued a licence for energy activities relating to supply of electricity to the Company on 16 October 2016 for a period of five years.

39. Share-based and non share-based payment transactions

Long-term incentive plans, HT Variable II 2014, Lead to Win 2015, Lead to Win 2016 and Lead to Win 2017 currently exist at Group level.

Lead to Win is DT model of performance management for Executives adapted for the local needs and it integrates target management, performance and potential review (PPR) and succession management. This model is based on clear and transparent link between performance rating and rewards for short term incentive STI, LTI (Long term incentive) and SMP (Share matching Plan), based on DT share. Eligibility and grant-value depend on individual performance and MG (Management Group) level (MG1 – MG3), and MG1 represents the highest level managerial positions.

LTI plan, as a part of Lead to Win model is a global Deutsche Telekom Group's (DT Group) 2017, Group-wide compensation instrument. The aim of the 2017 LTI is to enhance willingness to take on entrepreneurial responsibility and identification with DT Group and thus boost the Group's value in the medium to long-term. This leads to a greater balance of management and shareholder interests. The term of the 2017 LTI shall cover the period from 1 January 2017 to 31 December 2020.

HT Variable II 2013 ended on 31 December 2016, and the Supervisory Board has determined final target achievement of 33.7%. In accordance to this achievement, in May 2017 the awarded amount was paid to participants.

HT Variable II 2014 is cash-based plan with four equally weighted performance parameters that cannot be changed during plan duration. Two targets are financial KPIs, adjusted Earnings Per Share (EPS) and adjusted operating Return On Capital Employed (ROCE), third and fourth targets are customer and employee satisfaction. Duration of the plan is four years effective from 1 January 2014.

Upon expiry of the term of the plan, the HT Supervisory Board shall determine whether each of the targets has been achieved. Based on the findings of the HT Supervisory Board, the HT Management Board determines and announces the level of target achievement.

The Variable II amount awarded to International Business Leaders (BLT's) is fixed sum specified in the individual employment contract, while to other participants amount of reward is 30% or 20% of the participants' individual annual salary as contracted on the beginning of the plan, depending on management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual total fixed salary and the annual variable salary in case of a 100% target achievement.

Variable II offers the option of exceeding the amounts earmarked for award, limited to 150% of the award volume per parameter. The parameters are independent of each other hence, each parameter is assessed separately. Both potential excesses and shortfalls in relation to targets are accounted for on a graded basis per target parameter.

LTI as part of Lead to Win Program 2015, 2016 and 2017 are also cash based plan, and awarded amount depends on MG (Management Group) to which positions of participant belongs and on individual performance. Participants can be only those who meet at least performance rating 3 (score range is from 1 to 5). Based on this the amount shall be from 10% to 30% of the annual target salary depending on MG and on individual performance rating. The relevant amount will be converted into a number of phantom shares in DTAG divisible by four and awarded to the future plan participant in the form of shares The number of phantom shares is linked to four equally weighted success parameters. The target values of the success parameters are set at the beginning of the four-year plan term, and at the end, the total number of received phantom shares, that is dependent on the achievement of defined targets, will be converted into a cash amount to be paid to participants of the plan. An interim value shall be determined for each annual tranche. The plan currency is euros, and four defined success parameters are DT parameters.

Success parameters are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have a target achievement corridor of between 0% and 150% and the shares awarded (basic number) correspond to target achievement of 100%.

The DTAG Supervisory Board determines the target achievement after the end of each year of the plan period. Based on the levels determined, the DTAG Board of Management determines the target achievement for the plan participants. On this basis, the responsible bodies or committees of the participating companies shall take the necessary measures for these companies.

The (Matching Share Plan) MSP is program under which the participant can receive HT shares on expiry of a four-year period. The participant is obliged to invest an amount from 10% to a maximum 33.33% of the paid out gross annual variable salary to HT shares. The participant is granted one additional HT share for each share, under condition that he/she held them continuously for a period of at least four years from the date of purchase (vesting period).

As a part of Lead to Win Program 2015, 2016 and 2017, Share Matching Plan was introduced for managers in Managements Groups MG1, MG2 and MG3. The share matching plan is a long-term voluntary compensation instrument, which makes the executives co-owners of the DT and enables them to benefit from the success of the DT share. The amount of the voluntary personal investment is between 10% and a third of the gross payment amount of the Short Term Incentive payment for previous year. The term of the 2017 SMP shall cover the period from July 1, 2017 to June 30, 2021. DT shares purchased as part of the voluntary personal investment are locked for the entire period and labelled with a corresponding lock indicator. At the end of the plan term the plan participant will be granted DTAG shares free of charge. The ratio between the number of shares purchased as part of the voluntary personal investment and the number of matching shares will depend on the personal performance of the plan participant.

Employee services are recognized as expenses on a pro rata basis over the vesting period. The Group is measuring value of employee services, indirectly, by reference to the fair value of the equity instruments granted. The fair value of the equity instruments granted is measured at grant date by using observable market price.

All gains and expenses resulting from changes of the related provisions for all LTIP plans recognized for employee services received during the year are shown in the following table:

	2017 HRK million	2016 HRK million
Expenses	–	(1)
	–	**(1)**

40. Auditor’s fees

The auditors of the Group’s financial statements have rendered services of HRK 6 million in 2017 (2016: HRK 5 million). Services rendered in 2017 and 2016 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes. Other services rendered by auditor of financial statements include educational services and IFRS 15 project recommendations.