



Zagreb – 21 February 2018

Hrvatski Telekom Results for the year ended 31 December 2017

Two-digit increase in revenue and EBIDTA and increased investment in 2017 lay the foundations of Hrvatski Telekom's future growth

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its audited consolidated results for the year ended 31 December 2017.

The annual results also include Crnogorski Telekom which was acquired beginning of 2017, and the impact of H1 Telekom d.d. upon the completion of the merger process of H1 Telekom d.d. into OT – Optima Telekom d.d.

Revenue generated in 2017 amounts to HRK 7.756 billion, which is an 11% increase compared to 2016. Excluding Crnogorski Telekom's contribution, revenue increased by 2% compared to the previous year. Excluding the impact of H1 Telekom, revenue grew by 1.5 %.

Hrvatski Telekom maintained its leading position in all segments of the telecommunications market. The main contributors to revenue growth of Hrvatski Telekom were mobile communications revenue and system solutions growth.

EBITDA before exceptional items amounts to HRK 3.138 billion, which is an 11.2% increase compared to 2016, along with a strong EBIDTA margin of 40.5%, which is 0.1 percentage point above the previous year.

Excluding Crnogorski Telekom's contribution, EBITDA before exceptional items increased by 3.4% to HRK 2,918 million, with an EBITDA margin of 41%. Excluding the impact of H1 Telekom, EBITDA before exceptional items increased by 2.8 %.

Net profit in 2017 amounts to HRK 863 million, which is a 7.5 % decrease compared to 2016. Excluding Crnogorski Telekom's contribution, realised net profit decreased by 10.8%. Net profit realisation is impacted by higher depreciation and amortisation driven by increased infrastructure investments and increased asset and receivables write-down.

More than HRK 1.7 billion of investment in infrastructure and innovative services

Compared to 2016, Capex realisation in 2017 increased by 17.2%, including Crnogorski Telekom's contribution. Excluding the latter, Capex realisation increased by 8.5% compared to 2016, amounting to HRK 1,745 million.

Investment in the fixed network resulted in fibre optic access for 374 thousand households. Next Generation Access speeds were enabled in total for 879 thousand Croatian households, which means that HT Group alone will achieve 70% of the European Digital Agenda 2020 targets for Croatia.

In the mobile segment, 4G network capacities were increased by 34%, and mobile Internet speeds were increased on average by 38%, with speeds of up to 350 Mbit/s. The end of the year was marked by the independent international P3 certificate awarded to HT for the best mobile network in Croatia and one of the best mobile Internet services in Europe.

As a result of increased capacities of IP core network, aggregation network modernisation, and increase in mobile Internet bitrates, we supported a 330% visitors' data traffic increase during the tourist season, resulting from the new roaming regulation.

In the next three years, HT will invest HRK 210 million in business and digital transformation, which started in May 2017. This transformation will include major interventions in HT's systems and service portfolio in order to position HT as a front-runner in the customer experience area.

The PanTera network of the future pilot project was implemented in a limited area of Croatia. It provides customers with superior internet speeds of 1 Gbit/s and 4K TV content.

The unique concept of service offering on the telecommunications market, Magenta 1, launched in H1 2016, has been accepted by more than 118 thousand households, and this number is steadily rising.

More than half of the profit for dividend distribution

The Management Board and the Supervisory Board have made a proposal to the General Assembly that dividend be distributed in the amount of HRK 6 per share, to be paid out of the 2017 net profit, which results in a total amount of HRK 490,020,384.00 earmarked for dividend payment, which is payment of 58.25% of distributable profits earned in the preceding year, while the remaining part of net profit will be allocated to retained earnings.

HT will, at the beginning of the year, announce a minimum target dividend for each year, which will be within the Dividend Policy range. For the financial year 2018, the Management Board currently expects the payment of dividends to a minimum amount of HRK 6.00 per share.

In July 2017, a Share Buyback Programme ("Programme") was launched, with 2.5 million shares scheduled for acquisition, and the maximum amount assigned to the Programme amounts to HRK 500 million. The Buyback Programme comes as a continuation of the current dividend distribution policy, which further shows the Company's intention to return part of the generated value to its shareholders.

By 31 December 2017, the Company acquired a total of 216,005 own shares at the Zagreb Stock Exchange, representing 0.26 % of the share capital, for which an equivalent value amounting to HRK 37.6 million was produced.

Entering the growth phase with the major regional step forward in Montenegro

In early January 2017, Hrvatski Telekom acquired a 76.53% stake in Montenegro's Crnogorski Telekom, for a purchase price of EUR 123.5 million. This transaction is part of HT's growth strategy through expansion into regional markets.

Synergy effects are beginning to be felt in the area of sales operations in Crnogorski Telekom, in the reduction of direct costs, and in the increase of customer satisfaction. Despite the market and regulatory challenges and trends of fixed-to-mobile technology substitution, Crnogorski Telekom maintained its leading position with a 40.3% market share in the postpaid mobile segment, as well as the leading position on the fixed broadband access and voice service market, regardless of the drop in revenue in the fixed segment and revenue growth in the mobile segment and in system solutions.

In 2018, focus on growth, new digital experience, and expansion of operations

Commenting on the 2017 business results and plans for 2018, **Davor Tomašković**, President of the Management Board of Hrvatski Telekom, said:

“We look back at another successful year and HT’s convincingly leading position in all segments of the telecommunications market. By acquiring Crnogorski Telekom, we have made a major regional step forward, while the Optima-H1 merger has contributed to market stability. We have fully replaced our TV platform, and at the end of the year, 250,000 of our TV customers enjoy watching the TV of the future. We have launched new hybrid tariff plans and hybrid internet access, and Magenta 1 now has 120,000 users who enjoy the world of benefits. We ended the year with the P3 award for the best mobile network in Croatia and one of the best mobile internet services in Europe. I am proud that we are developing into a modern company, focused on the future and growth across all business segments.”

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

The conference call dial in details are as follows:

International Dial In

+44 (0) 2071 928 000

Conference ID

9267189

A replay of the call will be available until Wednesday, 28 February 2018 using the following details:

International Dial In

+44 (0)1452 550 000

Conference ID

9267189

Full audited accounts for HT Group and HT d.d., other prescribed documentation as well as a presentation covering results for the 2017 financial year, can be downloaded from the HT web site. (www.t.ht.hr/en/investor-relations/) and are fully available in the Official Register of Prescribed Information (SRPI).

1. Review

1.1 Introduction

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.

1.2 Economic background

Expected GDP yearly growth to reach 3.1% in 2017

Croatia's economic yearly growth is expected to reach 3.1% in 2017.¹ 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

1.3 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.

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

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 2017².

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 2017².

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.

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

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.

1.4 Supervisory Board Decisions

1.4.1 Financial Statements

The Management Board and Supervisory Board of Hrvatski Telekom d.d. have adopted the Annual Financial Statements of the Company and the Consolidated Financial Statements of HT Group, with the auditor's report, for the 2017 financial year.

The Annual Financial Statements will be forwarded to the General Assembly.

1.4.2 Net profit distribution proposal

The Company Hrvatski Telekom d.d. in the business year ending with 31 December 2017 realized the net profit in the amount of HRK 841,265,803.70.

The distribution of the net profit from 2017 is proposed in the following manner:

- 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.
- A part of net profit in the amount of HRK 351,245,419. shall be allocated to retained earnings.

⁵ Source: IDC Adriatics, June 2017

The proposed dividend payout amount of HRK 490,020,384.00, or 6.00 HRK per share, is within the range declared as a dividend policy, and is equivalent to 58.25% payout of the Company's distributable profits earned in the preceding year.

The dividend shall be paid out to all shareholders that are registered as shareholders at the Central Depository & Clearing Company (SKDD) on 9 May 2018 (record date). The date on which shares of Hrvatski Telekom d.d. will be traded without a dividend payment right is 8 May 2018 (ex date). The dividend payment claim matures on 21 May 2018 (payment date).

The General Assembly is currently planned to be held on 24 April 2018.

In addition, 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, HT announces today that it currently expects to pay out a minimum dividend of HRK 6 per share out of 2018 net profit.

1.5 Regulatory environment

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 €/min), new FTR in the amount of 0.88/0.44 lipa/min (peak/off-peak; 0.117/0.059 €/min) while new MTR in the amount of 4.70 lipa/min (0.628 €/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).

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.

1.6 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 later in the document.

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.

1.7 Summary of key financial indicators

HT Group (including Crnogorski Telekom), in HRK million

in HRK million

INCOME STATEMENT	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Revenue	6,984	7,756	11.0%	1,800	1,971	9.5%
Mobile	2,821	3,305	17.2%	703	827	17.6%
Fixed voice	953	927	-2.8%	227	219	-3.5%
Broadband & TV	1,315	1,439	9.4%	329	355	8.0%
Fixed wholesale	365	369	1.0%	94	78	-17.4%
Other fixed	742	835	12.5%	197	224	13.3%
System solutions	677	731	8.0%	216	229	6.4%
Miscellaneous	112	151	34.7%	34	39	14.6%
EBITDA before exceptional items	2,821	3,138	11.2%	709	793	11.9%
Exceptional items	85	151	78.0%	23	50	118.1%
EBITDA after exceptional items	2,736	2,986	9.1%	686	743	8.3%
EBIT (Operating profit)	1,239	1,118	-9.8%	227	130	-42.9%
Net profit after non controlling interests	934	863	-7.5%	182	128	-29.3%
EBITDA margin before exceptional items	40.4%	40.5%	0.1 p.p.	39.4%	40.2%	0.9 p.p.
EBITDA margin after exceptional items	39.2%	38.5%	-0.7 p.p.	38.1%	37.7%	-0.4 p.p.
EBIT margin	17.7%	14.4%	-3.3 p.p.	12.6%	6.6%	-6.0 p.p.
Net profit margin	13.4%	11.1%	-2.2 p.p.	10.1%	6.5%	-3.6 p.p.

BALANCE SHEET	At 31 Dec 2016	At 31 Dec 2017	% of change A17/A16	At 31 Dec 2016	At 31 Dec 2017	% of change A17/A16
Total non current assets	8,889	10,385	16.8%	8,889	10,385	16.8%
Total current assets	5,566	5,353	-3.8%	5,566	5,353	-3.8%
TOTAL ASSETS	14,455	15,738	8.9%	14,455	15,738	8.9%
Total issued capital and reserves	12,046	12,573	4.4%	12,046	12,573	4.4%
Total non current liabilities	561	737	31.4%	561	737	31.4%
Total current liabilities	1,847	2,429	31.5%	1,847	2,429	31.5%
TOTAL EQUITY AND LIABILITIES	14,455	15,738	8.9%	14,455	15,738	8.9%

CASH FLOW	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Net cash flow from operating activities	2,075	2,691	29.7%	431	804	86.6%
Net cash flow from investing activities	-1,742	-1,215	30.2%	-740	-351	52.5%
Net cash flow from financing activities	-833	-981	-17.8%	-102	-119	-16.7%
Cash and cash equivalents at the end of perio	2,676	3,152	17.8%	-396	276	169.8%

CAPEX	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
CAPEX	1,608	1,885	17.2%	631	635	0.6%
CAPEX / Revenue ratio	23.0%	24.3%	1.3 p.p.	35.1%	32.2%	-2.9 p.p.

NUMBER OF EMPLOYEES	At 31 Dec 2016	At 31 Dec 2017	% of change A17/A16	At 31 Dec 2016	At 31 Dec 2017	% of change A17/A16
Number of employees (FTEs)	4,427	5,110	15.4%	4,427	5,110	15.4%

RESIDENTIAL SEGMENT	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Revenue	3,750	3,754	0.1%	941	949	0.8%
Contribution to EBITDA before exceptional items	2,565	2,546	-0.7%	630	636	1.0%

BUSINESS SEGMENT	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Revenue	2,793	2,883	3.2%	750	730	-2.8%
Contribution to EBITDA before exceptional items	1,373	1,329	-3.2%	328	305	-7.0%

NETWORK & SUPPORT FUNCTIONS	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Contribution to EBITDA before exceptional items	-1,355	-1,236	8.8%	-313	-282	10.1%

SEGMENT OPTIMA CONSOLIDATED	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Revenue	441	483	9.5%	109	133	21.9%
Contribution to EBITDA before exceptional items	239	275	15.4%	64	81	25.7%

SEGMENT CRNOGORSKI TELEKOM CONSOLII	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Revenue	n/a	636	n/a	n/a	160	n/a
Contribution to EBITDA before exceptional items	n/a	223	n/a	n/a	53	n/a

1.8 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Twelve months to 31 Dec 2016	7.53	7.56	6.80	7.17
Twelve months to 31 Dec 2017	7.46	7.51	6.62	6.27

2. Business Review

HT Croatia, in HRK million

in HRK million

INCOME STATEMENT	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Revenue	6,984	7,125	2.0%	1,800	1,814	0.8%
Mobile	2,821	2,988	5.9%	703	750	6.6%
Fixed voice	953	843	-11.5%	227	199	-12.6%
Broadband & TV	1,315	1,318	0.3%	329	326	-1.1%
Fixed wholesale	365	347	-4.9%	94	73	-22.5%
Other fixed	742	779	4.9%	197	210	6.2%
System solutions	677	698	3.2%	216	220	1.9%
Miscellaneous	112	151	34.7%	34	39	14.6%
EBITDA before exceptional items	2,821	2,918	3.4%	709	741	4.5%
Exceptional items	85	144	69.4%	23	46	102.9%
EBITDA after exceptional items	2,736	2,774	1.4%	686	695	1.3%
EBIT (Operating profit)	1,239	1,066	-14.0%	227	121	-46.9%
Net profit after non controlling interests	934	833	-10.8%	182	123	-32.1%
EBITDA margin before exceptional items	40.4%	41.0%	0.6 p.p.	39.4%	40.9%	1.5 p.p.
EBITDA margin after exceptional items	39.2%	38.9%	-0.2 p.p.	38.1%	38.3%	0.2 p.p.
EBIT margin	17.7%	15.0%	-2.8 p.p.	12.6%	6.7%	-6.0 p.p.
Net profit margin	13.4%	11.7%	-1.7 p.p.	10.1%	6.8%	-3.3 p.p.

Key operational data	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Mobile customers in 000						
Number of customers	2,234	2,244	0.5%	2,234	2,244	0.5%
- Prepaid	1,075	985	-8.4%	1,075	985	-8.4%
- Postpaid	1,159	1,260	8.7%	1,159	1,260	8.7%
Minutes of use (MOU) per average customer	206	216	4.8%	207	216	4.7%
Blended ARPU (monthly average for the period in HRK)	76	77	0.9%	74	75	0.3%
- Prepaid	42	43	1.9%	40	42	2.8%
- Postpaid	110	106	-3.3%	108	102	-5.3%
Blended non-voice ARPU (monthly average for the period in HRK)	38	40	5.2%	38	40	5.9%
SAC per gross add in HRK	105	109	3.9%	121	82	-32.7%
Churn rate (%)	2.8	2.5	-0.3 p.p.	3.9	3.1	-0.8 p.p.
Penetration (%) ¹⁾	114	118.2	4.3 p.p.	114	118	4.3 p.p.
Market share of customers (%) ¹⁾	47	46.2	-0.8 p.p.	47	46.2	-0.8 p.p.
Smartphone customers (%) ²⁾	57	58	1.0 p.p.	57	58	1.0 p.p.
Smartphones sold (%) ³⁾	79	84	5.0 p.p.	79	88	9.0 p.p.

1) Source: internal estimation of the competitors customers for EO December 2017. Market share estimation is based on the total number of SIMs, which includes handset SIMs, M2M, mobile broadband and other SIMs which may be used to create a service that traditionally has been considered as „fixed service”

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	Q4 2016	Q4 2017	% of change A17/A16
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	924	875	-5.4%	924	875	-5.4%
Fixed mainlines - wholesale (WLR - wholesale line rental)	83	63	-24.2%	83	63	-24.2%
ARPU voice per user (monthly average for the period in HRK) ²⁾	84	78	-6.9%	81	75	-7.6%
IP mainlines/customers in 000						
Broadband access lines - retail ³⁾	618	624	1.0%	618	624	1.0%
Broadband access lines - wholesale ⁴⁾	134	131	-2.3%	134	131	-2.3%
TV customers	401	417	4.0%	401	417	4.0%
Broadband retail ARPU (monthly average for the period in HRK)	122	117	-3.8%	119	113	-4.9%
TV ARPU (monthly average for the period in HRK)	82	81	-1.4%	83	82	-2.1%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	148	135	-9.2%	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

HT Group highlights:

- Efforts taken to maintain position in the market
 - HT managed to keep the leading mobile market share with estimated portion of 46.2%
 - The Croatian fixed broadband and TV market continued to grow, HT recording growth 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.
 - 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 infrastructure
- 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 dozivise.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 "Zmajaska" 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 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.

3. HT Group financial performance

3.1 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, visitor revenue and postpaid revenue while prepaid revenue decreased as well as other mobile revenue.

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%).

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, partially offset by absence of commitment write off related to obligation for antenna poles retirement realized in 2016.

3.2 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, write down of assets and other expenses, partially offset by higher work performed by the Group and capitalized and lower employee benefits expenses.

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 and services expenses. 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, partially offset by lower services expenses.

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 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 was driven by higher mobile merchandise, higher system solution merchandise following system solution revenue development and lower fixed merchandise 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 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 offset by lower redundancy costs. 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, partially offset by higher personnel costs.

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 and higher selling commissions, partially offset by lower maintenance costs.

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.

3.3 HT Group 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 mainly driven by realization in mobile and higher other operating income due to higher sale of fixed assets, partially offset by higher operating expenses.

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 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 and higher net financial loss mostly driven by higher interest expense due to content capitalization.

This was partially compensated with higher EBITDA before exceptional items, non controlling interest and lower taxation.

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

3.4 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.

3.5 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.

3.6 HT Group capital expenditure

HT Grupa including Crnogorski Telekom

in HRK million	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
CAPEX	1,608	1,885	17.2%	631	635	0.6%
CAPEX / Revenue ratio	23.0%	24.3%	1.3 p.p.	35.1%	32.2%	-2.9 p.p.

Crnogorski Telekom

in HRK million	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Crnogorski Telekom	0	140	-	0	44	-

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.

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.

4. Crnogorski Telekom stand-alone 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.

in EUR million

Key financial data	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Mobile revenue	44.0	42.5	-3.3%	11.4	10.3	-9.6%
Fixed revenue	43.2	38.1	-11.8%	10.0	9.3	-6.8%
System solutions	4.6	4.7	0.7%	1.0	1.6	55.0%
Revenue	91.8	85.3	-7.1%	22.5	21.2	-5.4%
EBITDA before EI	31.1	29.5	-5.2%	7.1	6.9	-3.1%
Capex	21.0	18.6	-11.2%	11.1	5.8	-47.4%

Key operational data	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Mobile customers in 000	361	352	-2.5%	361	352	-2.5%
- Prepaid	176	141	-20.0%	176	141	-20.0%
- Postpaid	185	211	14.2%	185	211	14.2%
Fixed mainlines - retail in 000	135	123	-9.5%	135	123	-9.5%
Broadband access lines - retail in 000	70	70	-0.6%	70	70	-0.6%
TV customers in 000	59	56	-4.8%	59	56	-4.8%

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.

Crnogorski Telekom has market share leadership in fixed voice and broadband in Montenegrin market and 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.

5. Overview of segment profitability

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.

5.1 Residential Segment

in HRK million	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Mobile revenue	1,870	1,953	4.4%	474	510	7.7%
Fixed revenue	1,841	1,764	-4.2%	457	429	-6.1%
Miscellaneous	39	37	-5.4%	10	9	-7.2%
Revenue	3,750	3,754	0.1%	941	949	0.8%
Operating expenses	1,185	1,208	1.9%	311	312	0.4%
Contribution to EBITDA before exceptional it	2,565	2,546	-0.7%	630	636	1.0%

5.2 Business Segment

in HRK million	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Mobile revenue	951	1,035	8.9%	229	239	4.3%
Fixed revenue	1,093	1,038	-5.0%	282	244	-13.4%
System solution	677	696	2.8%	216	217	0.8%
Miscellaneous	73	114	55.9%	24	29	23.9%
Revenue	2,793	2,883	3.2%	750	730	-2.8%
Operating expenses	1,420	1,554	9.4%	422	425	0.6%
Contribution to EBITDA before exceptional it	1,373	1,329	-3.2%	328	305	-7.0%

5.3 Network and support functions

in HRK million	2016	2017	<i>% of change A17/A16</i>	Q4 2016	Q4 2017	<i>% of change A17/A16</i>
Other operating income	142	166	17.0%	51	50	-1.9%
Operating expenses	1,498	1,402	-6.4%	364	332	-8.9%
Contribution to EBITDA before exceptional it	-1,355	-1,236	8.8%	-313	-282	10.1%

5.4. Segment Optima Telekom consolidated

in HRK million	2016	2017	<i>% of change A17/A16</i>	Q4 2016	Q4 2017	<i>% of change A17/A16</i>
Fixed revenue	441	483	9.5%	109	133	21.9%
Revenue	441	483	9.5%	109	133	21.9%
Other operating income	2	4	66.3%	1	1	19.3%
Operating expenses	204	211	3.2%	46	53	16.5%
Contribution to EBITDA before exceptional it	239	275	15.4%	64	81	25.7%

5.5. Segment Crnogorski Telekom consolidated

in HRK million	2016	2017	<i>% of change A17/A16</i>	Q4 2016	Q4 2017	<i>% of change A17/A16</i>
Mobile revenue	0	317	-	0	78	-
Fixed revenue	0	284	-	0	70	-
System solution	0	35	-	0	12	-
Revenue	0	636	-	0	160	-
Other operating income	0	4	-	0	2	-
Operating expenses	0	417	-	0	110	-
Contribution to EBITDA before exceptional it	0	223	-	0	53	-

6. Hrvatski Telekom 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%).

7. Risk management

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

8. HT Group 2018 outlook

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

9. HT Group Financial statements

9.1 Consolidated Income Statement

in HRK million	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Mobile revenue	2,821	3,305	17.2%	703	827	17.6%
Fixed revenue	3,375	3,569	5.7%	847	876	3.3%
System solutions	677	731	8.0%	216	229	6.4%
Miscellaneous	112	151	34.7%	34	39	14.6%
Revenue	6,984	7,756	11.0%	1,800	1,971	9.5%
Other operating income	145	174	20.5%	52	54	3.2%
Total operating revenue	7,129	7,930	11.2%	1,852	2,024	9.3%
Operating expenses	4,392	4,943	12.5%	1,166	1,281	9.9%
Material expenses	2,096	2,387	13.9%	588	651	10.7%
Employee benefits expenses	986	1,073	8.8%	261	305	16.6%
Other expenses	1,373	1,535	11.8%	344	386	12.1%
Work performed by the Group and capitalised	-101	-158	56.7%	-37	-67	83.7%
Write down of assets	38	106	181.7%	8	6	-28.0%
EBITDA	2,736	2,986	9.1%	686	743	8.3%
Depreciation and amortization	1,497	1,869	24.8%	459	614	33.7%
EBIT	1,239	1,118	-9.8%	227	130	-42.9%
Financial income	63	38	-39.7%	28	7	-74.9%
Income/loss from investment in joint ventures	4	2	-48.3%	0	-4	1647.6%
Financial expenses	144	174	20.9%	21	36	68.6%
Profit before taxes	1,162	984	-15.4%	234	97	-58.4%
Taxation	234	180	-23.3%	50	19	-62.5%
Net profit	928	804	-13.3%	184	78	-57.3%
Non controlling interests	-6	-59	958.1%	2	-50	-2351.2%
Net profit after non controlling interests	934	863	-7.5%	182	128	-29.3%
Exceptional items ¹⁾	85	151	78.0%	23	50	118.1%
EBITDA before exceptional items	2,821	3,138	11.2%	709	793	11.9%

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

9.2 Consolidated Balance Sheet

in HRK million	At 31 Dec 2016	At 31 Dec 2017	% of change A17/A16
Intangible assets	1,738	2,539	46.1%
Property, plant and equipment	5,619	6,175	9.9%
Non-current financial assets	1,352	1,333	-1.4%
Receivables	121	248	105.3%
Deferred tax asset	59	91	52.7%
Total non-current assets	8,889	10,385	16.8%
Inventories	111	128	14.9%
Receivables	1,327	1,631	22.8%
Current financial assets	1,189	197	-83.4%
Cash and cash equivalents	2,676	3,152	17.8%
Prepayments and accrued income	262	246	-6.2%
Total current assets	5,566	5,353	-3.8%
TOTAL ASSETS	14,455	15,738	8.9%
Subscribed share capital	9,823	9,823	0.0%
Reserves	492	492	0.0%
Revaluation reserves	2	2	-31.9%
Retained earnings	633	1,024	61.9%
Net profit for the period	934	863	-7.5%
Non controlling interests	163	369	126.0%
Total issued capital and reserves	12,046	12,573	4.4%
Provisions	53	73	36.5%
Non-current liabilities	472	617	30.6%
Deferred tax liability	35	47	34.1%
Total non-current liabilities	561	737	31.4%
Current liabilities	1,741	2,310	32.6%
Deferred income	89	89	-0.2%
Provisions for redundancy	17	30	79.8%
Total current liabilities	1,847	2,429	31.5%
Total liabilities	2,408	3,166	31.5%
TOTAL EQUITY AND LIABILITIES	14,455	15,738	8.9%

9.3 Consolidated Cash Flow Statement

in HRK million	2016	2017	<i>% of change A17/A16</i>
Profit before tax	1,162	984	-15.4%
Depreciation and amortization	1,497	1,869	24.8%
Increase / decrease of current liabilities	-151	321	311.9%
Increase / decrease of current receivables	-112	-105	6.0%
Increase / decrease of inventories	-1	-57	-4811.2%
Other cash flow increases / decreases	-321	-320	0.1%
Net cash inflow/outflow from operating activities	2,075	2,691	29.7%
Proceeds from sale of non-current assets	56	99	78.0%
Proceeds from sale of non-current financial assets	639	2	-99.8%
Interest received	18	11	-39.6%
Dividend received	3	0	-100.0%
Other cash inflows from investing activities	1,941	1,302	-32.9%
Total increase of cash flow from investing activities	2,656	1,413	-46.8%
Purchase of non-current assets	-1,173	-1,467	-25.0%
Purchase of non-current financial assets	-1,019	-867	86.6%
Other cash outflows from investing activities	-2,207	-295	86.6%
Total decrease of cash flow from investing activities	-4,398	-2,629	40.2%
Net cash inflow/outflow from investing activities	-1,742	-1,215	30.2%
Total increase of cash flow from financing activities			-
Repayment of loans and bonds	-38	-72	-90.1%
Dividends paid	-491	-493	-0.4%
Repayment of finance lease	-10	-53	-100.0%
Other cash outflows from financing activities	-294	-363	-23.6%
Total decrease in cash flow from financing activities	-833	-981	-17.8%
Net cash inflow/outflow from financing activities	-833	-981	-17.8%
Exchange gains/losses on cash and cash equivalents	2	-19	-1003.3%
Cash and cash equivalents at the beginning of period	3,175	2,676	-15.7%
Net cash (outflow) / inflow	-501	494	198.8%
Cash and cash equivalents at the end of period	2,676	3,152	17.8%

9.4 Consolidated EBITDA reconciliation

in HRK million	2016	2017	% of change A17/A16	Q4 2016	Q4 2017	% of change A17/A16
Segment Result (Contribution to EBITDA)						
Residential Segment	2,565	2,546	-0.7%	630	636	1.0%
Business Segment	1,373	1,329	-3.2%	328	305	-7.0%
Network and Support Functions	-1,355	-1,236	8.8%	-313	-282	10.1%
Segment Optima consolidated	239	275	15.4%	64	81	25.7%
Segment Crnogorski telekom consolidated	0	223	-	0	53	-
Total Contribution to EBITDA before exceptional items of the Segments	2,821	3,138	11.2%	709	793	11.9%
Exceptional items	85	151	78.0%	23	50	118.1%
Total EBITDA	2,736	2,986	9.1%	686	743	8.3%

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

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

The Management report for the year 2017 contains a true presentation of development and results of operations and position of the Group, with description of significant risks and uncertainties for the Group as a whole.

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

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

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

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

Mr. Boris Batelić, Member of the Management Board and Chief Customer Experience Officer

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

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

Zagreb, 21 February 2018

11. Presentation of information

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

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

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

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

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

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

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

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

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

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

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

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

12. Disclaimer

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