



Zagreb – 27 October 2016

Hrvatski Telekom Results for the nine months ended 30 September 2016

Hrvatski Telekom: stable revenue, increased net profit

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited results for the nine months ended 30 September 2016.

Hrvatski Telekom business in the first nine months of the current year was marked by stable revenue and increased net profit and capital expenditures.

Revenue was generated in the amount of HRK 5.184 billion, which is a 0.1% decline compared to the same period in 2015, when revenue amounting to HRK 5.190 billion was recorded.

3Q 2016 recorded a 0.6% growth in earnings before interest, tax, depreciation, and amortisation (EBITDA before exceptional items) compared to the same period last year. EBITDA amounts to HRK 2.112 billion with a 40.7% EBITDA margin.

Net profit amounts to HRK 752 million, which is 2.9% above the nine months in 2015.

Investment in innovative services and infrastructure

In comparison to the same period last year, capital expenditures increased by 8.3%, to HRK 977 million, with a focus on increase of the broadband Internet access capacity and customer experience improvement.

In the fixed network, fibre optic access was enabled for 257 thousand households, which is about 30,000 households more than at the end of Q2.

Until the end of September 2016, access speeds were increased by two to five times, free of charge, for almost 50% of broadband Internet users.

For 51% of 4G network users, access bitrates up to 225 Mbps were enabled, which is a 20pp increase compared to the end of 2015. 4G mobile network indoor coverage increased to 67.7 % of the population, as compared to 65% at the beginning of 2016.

The new, unique concept of service offering on the Croatian telecommunications market – Magenta 1, launched in H1 2016, was accepted by more than 32,000 households by the end of Q3, which shows that with this innovation HT has recognised their needs.

Commenting on the results of Q3 2016, **Davor Tomašković, President of the Management Board of Hrvatski Telekom**, said: *“In the third quarter again, we delivered good financial results. We are recording growth in the number of customers as well as growth in the segment of mobile operations, broadband, TV and energy. We continued to invest in network infrastructure and innovative services, thus further strengthening our position of a technological leader on the Croatian market. We are focused on further improvement of the customer experience. In the third quarter, we also presented*

HT's Economic Atlas, a study of social and economic contribution conducted by the Zagreb Economic Institute. The study showed that, during the last five years, HT has been the largest private investor in Croatia, that it has provided 3 percent of the Croatian GDP and generated more than 27 thousand jobs in Croatia. HT is the leading Croatian company in terms of its positive impact on the wider business and social environment, whose business activities have brought about the largest newly generated value to the Croatian economy."

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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)1452 555 566

Conference ID

5953714

A replay of the call will be available until Thursday, 3 November 2016 using the following details:

International Dial In

+44 (0)1452 550 000

Replay Access Code

5953714

A presentation covering results for the nine months of 2016 can be downloaded from the HT web site (www.t.ht.hr/eng/investors/).

1. Review

1.1 Introduction

HT Group's good performance in first nine months of 2016

HT Group has successfully responded to market challenges and maintained a leading position in the Croatian telecommunications market across all business segments in the first nine months of 2016. Differentiation of HT Group offers and positioning of brands contributed to strengthen position on the market.

1.2 Economic background

Positive trend of major economic activities and excellent tourist season indicate stronger GDP growth in 2016 than expected

Croatian GDP grew by 2.8% on a yearly basis in Q2 2016, more than expected. Continued growth of export, personal consumption and investments were three main contributors to the GDP's growth.¹ The recovery of personal consumption is supported by mild employment growth and more available net income due to the absence of inflation and reduced interest rates on loans. Industrial production grew by 2.5% yoy in August 2016, continuing positive trend that lasted 19 months in a row.¹ The usual seasonal decline in the unemployment rate is additionally supported by positive movements in the economy. The registered unemployment rate in August stood at 13.1% (down by 2.8pp in annual terms).¹ Reported average net income for July 2016 amounted to HRK 5,594 (up by 2.3pp in annual terms).¹ Average annual inflation rate in August 2016, calculated by Consumer Prices Index (CPI), was -1.5%.¹

1.3 Market overview

Key market trends: investments in networks, consolidation of the fixed market and convergent offers

Fixed network operators continued with network investments that were higher than in the first quarter of 2016. That resulted with growing number of internet users using 10 to 30 Mbit/s speeds.² On July 29th 2016, Optima's Management Board submitted request to Croatian Competition Agency to approve the merger of H1Telekom with Optima. At the same date, HT has submitted a request to the Croatian Competition Agency to prolong the temporary management of Optima for an additional three-year period, until 2021. Agency commenced the procedure, decision hasn't been made yet. Croatian mobile market has been determined by strong competition and regulatory measures that impact mobile revenue. Mobile SIM market contraction has been slowing down in 2016 in comparison to 2015. Estimated mobile SIM penetration rate was 120.4% at the end of September 2016. The estimated Company's share of total mobile customers is 46.4% at the end of September 2016.

¹ Source: Croatian Bureau of Statistics

² Source: IDC Adriatics, May 2016

All three mobile operators offer 4G services with favourable data packages and attractive smartphones/tablets that additionally encourage usage of OTT services. As a result, mobile data traffic recorded significant growth.² Total Croatian mobile market minutes of use (MOU) grew by 1.4% yoy in H1 2016 while the total number of sent SMS messages continued to decrease on annual basis by 10.1% in H1 2016.²

Amount of fixed originating voice minutes declined by 8.0% yoy in H1 2016. Total broadband traffic grew by 38.9% in H1 2016 compared to total traffic in H1 2015.²

According to the Croatian Post and Electronic Communications Agency, Croatian fixed broadband market continued to grow yearly by 4.6% in H1 2016. There were more than 1,010 thousand fixed broadband connections in use at the end of H1 2016.

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 as the largest fixed broadband operator in Croatia. HT Group had 611 thousand of broadband access lines at the end of September 2016.

Besides classic telecommunication services offers, in March 2016 HT Group introduced Magenta1, a unique concept of integrated/convergent services offering. For residential customers, enjoying in fixed and mobile services, HT provides fastest Internet access and the widest choice of TV content on MAXtv. For business customers, the Magenta1 Business package provides the best from the fixed, mobile and cloud world in one place.

The Croatian Pay TV market continues with growth and grew by 4.6% yoy in H1 2016 reaching 782 thousand customers. The leading Pay TV technology is IPTV, although DTH has the highest absolute growth compared to H1 2015 (19 thousand customers).²

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 3Q 2016 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 129 thousand at the end of September 2016, which is increase of 35.2% compared to the end of September 2015. Due to high churn and migration to broadband services (NBSA), number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing which resulted with 151 thousand of ULL access and 88 thousand of WLRs at the end of September 2016.

IT market

According to IDC Adriatics², Croatian IT market is expected to grow by 4.8% yearly in 2016. The strongest growth is projected for IT services (5.7%), followed by Packaged Software (5.4%) and Hardware (4.0%). HT Group is positioned in all three segments by providing standard and customized services with strategic focus on Cloud and Managed services.

Energy market

Business retail energy market is entering consolidation phase after three years experiencing tough price war. Incumbent has tried to win back lost market share, but still approximately 40% of business

²Source: IDC Adriatics, May 2016

customers are held by alternative suppliers. The profit margins on supply in business are suppressed due to competition. Recovery is expected soon in order to be sustainable. In residential segment, certain improvements in regulatory environment are ahead. Unlike all other energy suppliers, who are running business as primary activity, HT is seeking to exploit synergy effect from telco-energy convergent proposition which is launched for the first time in June 2016 as highly innovative offer.

1.4 Regulatory environment

Determining new fees for the wholesale broadband access service (BSA)

On September 14th, 2016 HAKOM adopted decision on reduction of fees for BSA and NBSA access on copper (BSA access where the network access is realized via services provided by the alternative operator) and BSA service on FTTH, on the increase of fees for private virtual channels for voice, IPTV and data, and on the introduction of a new category of BSA prices, the price for NBSA on ADSL/VDSL technology for the speeds of 30 Mbit/s and above.

Amended HT's Reference offer for wholesale BSA service containing new BSA/NBSA fees was published on September 22nd, 2016 on the official HT's web pages. New BSA/NBSA fees will be applicable as of January 1st, 2017.

Determining new fees for the wholesale line rental service (WLR)

On September 14th, 2016 HAKOM adopted decision on the increase of HT's WLR fees, including the obligation for HT to publish new fees within the amended WLR Reference offer within 15 days if HT intends to begin with the application of new fees as of January 1st 2017th at the earliest. HT published amended WLR Reference offer on September 29th, 2016, thereby announcing the entry into force of the new WLR fees as from July 1st, 2017.

Determining new fees for the wholesale fixed origination rates (FOR)

On September 14th, 2016 HAKOM adopted decision on new fixed origination rates based on HAKOM's LRAIC+ based bottom up cost model. The new FOR in the amount of 1.01/0.50 lipa/min (peak/off-peak; 0.135/0.067 €/min) will be applicable as of July 1st, 2017.

Determining new fees for the wholesale fixed termination rates (FTR)

On September 14th, 2016 HAKOM adopted decision on new fixed termination rates based on HAKOM's pure LRIC based bottom up cost model. The new FTR in the amount of 0.88/0.44 lipa/min (peak/off-peak; 0.117/0.059 €/min) will be applicable as of July 1st, 2017.

Determining new mobile termination rate (MTR)

On September 14th, 2016 HAKOM adopted decision on new mobile termination rate based on HAKOM's pure LRIC based bottom up cost model. The new MTR in the amount of 4.70 lipa/min (0.628 €/min) will be applicable as of July 1st, 2017.

Determining new wholesale leased lines fees

On September 14th, 2016 HAKOM adopted decision on new wholesale leased lines fees. New fees are based on updated HAKOM's LRAIC+ bottom up cost model and will be applicable as of January 1st, 2017

Amendments to the Reference Offer for Wholesale Broadband Access (BSA) and the Reference Offer for unbundled local loop service (ULL)

On September 14th, 2016 HAKOM adopted decision on amendments to the Reference offers for wholesale BSA and ULL services thereby increasing the penalty fees for delay in provision and fault repair for BSA and ULL from HRK 50 to HRK 100 (for delay in service provision during the first 10 days/for delay in fault repair during the first 48 hours) and from HRK 75 to HRK 150 (for delay exceeding the initial 10 days/48 hours). New penalty fees will enter into force on January 1st, 2017.

Abolition of the additional fee in the amount of HRK 60 per year for mobile radio frequencies

On August 16th, 2016 Ministry for maritime affairs, transport and infrastructure adopted amendments to the By-law on fees for the right of use of numbers, addresses and radiofrequency spectrum, thereby abolishing the additional yearly fee in the amount of HRK 60 for mobile radio frequency, which represented additional financial burden on mobile subscribers. Abolition entered into force on September 1st, 2016.

1.5 Changes in reporting

Optima Telekom

In 2014, the Croatian Competition Agency conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. The Croatian Competition Agency 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 a 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 the reporting of financial data necessary for consolidation. Respectively only financial statements are consolidated as of 1 July 2014 while, due to limited access to Optima Telekom's information, non financial KPIs are not consolidated in the Group results.

Costs related to the electronic communication infrastructure (ECI)

In 2015, the Company voluntary changed its accounting policy in regard to costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way. It determined that ECI contracts meet the criteria for capitalization as intangible assets. The effects of the accounting policy change on financial information for 2015 are recognized at year end, respectively restatement of financial data for 3Q 2015 was done as follows: EBITDA before EI increase of HRK 20 million, increase in Capex of HRK 44 million and increase in cash flow from operating activities of HRK 20 million.

1.6 Summary of key financial indicators

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Revenue	5,190	5,184	-0.1%	1,885	1,782	-5.5%
Mobile	2,049	2,117	3.3%	782	767	-2.0%
Fixed voice	832	726	-12.8%	272	238	-12.6%
Broadband & TV	1,002	986	-1.6%	334	334	-0.1%
Fixed wholesale	250	271	8.4%	89	99	11.3%
Other fixed	540	545	0.9%	175	182	3.6%
System solutions	474	461	-2.8%	216	131	-39.4%
Miscellaneous	42	78	85.8%	16	32	94.5%
EBITDA before exceptional items	2,100	2,112	0.6%	780	774	-0.8%
Exceptional items	87	62	-28.9%	7	1	-91.4%
EBITDA after exceptional items	2,012	2,050	1.9%	773	773	0.0%
EBIT (Operating profit)	923	1,012	9.6%	403	426	5.7%
Net profit after non controlling interests	730	752	2.9%	324	335	3.2%
EBITDA margin before exceptional items	40.5%	40.7%	0.3 p.p.	41.4%	43.4%	2.1 p.p.
EBITDA margin after exceptional items	38.8%	39.5%	0.8 p.p.	41.0%	43.4%	2.4 p.p.
EBIT margin	17.8%	19.5%	1.7 p.p.	21.4%	23.9%	2.5 p.p.
Net profit margin	14.1%	14.5%	0.4 p.p.	17.2%	18.8%	1.6 p.p.
Balance Sheet	At 31 Dec 2015	At 30 Sep 2016	% of change A16/A15	At 31 Dec 2015	At 30 Sep 2016	% of change A16/A15
Total non current assets	8,444	8,436	-0.1%	8,444	8,436	-0.1%
Total current assets	5,636	5,575	-1.1%	5,636	5,575	-1.1%
TOTAL ASSETS	14,079	14,011	-0.5%	14,079	14,011	-0.5%
Total issued capital and reserves	11,641	11,923	2.4%	11,641	11,923	2.4%
Total non current liabilities	556	577	3.8%	556	577	3.8%
Total current liabilities	1,882	1,510	-19.8%	1,882	1,510	-19.8%
TOTAL EQUITY AND LIABILITIES	14,079	14,011	-0.5%	14,079	14,011	-0.5%
in HRK million	At 31 Dec 2015	At 30 Sep 2016	% of change A16/A15	At 31 Dec 2015	At 30 Sep 2016	% of change A16/A15
Cash flow	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Net cash flow from operating activities	1,713	1,644	-4.1%	888	710	-20.0%
Net cash flow from investing activities	-433	-1,003		-787	-500	36.5%
Net cash flow from financing activities	-765	-731	4.4%	-67	-67	-0.4%
Cash and cash equivalents at the end of period	2,715	3,072	13.2%	41	156	279.9%
	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
CAPEX	902	977	8.3%	315	332	5.3%
CAPEX / Revenue ratio	17.4%	18.8%	1.5 p.p.	16.7%	18.6%	1.9 p.p.
	At 30 Sep 2015	At 30 Sep 2016	% of change A16/A15	At 30 Sep 2015	At 30 Sep 2016	% of change A16/A15
Number of employees (FTEs)	4,750	4,464	-6.0%	4,750	4,464	-6.0%

RESIDENTIAL SEGMENT

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Revenue	2,825	2,809	-0.5%	987	956	-3.1%
Contribution to EBITDA before exceptional items	1,975	1,935	-2.0%	681	671	-1.6%

BUSINESS SEGMENT

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Revenue	2,042	2,043	0.1%	793	715	-9.8%
Contribution to EBITDA before exceptional items	1,036	1,045	0.9%	400	402	0.4%

NETWORK & SUPPORT FUNCTIONS

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Contribution to EBITDA before exceptional items	-1,079	-1,042	3.4%	-359	-360	-0.3%

SEGMENT OPTIMA CONSOLIDATED

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Revenue	323	332	2.8%	105	111	5.0%
Contribution to EBITDA before exceptional items	168	175	4.0%	57	61	7.6%

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Nine months to 30 Sep 2015	7.60	7.63	6.82	6.79
Nine months to 30 Sep 2016	7.53	7.51	6.75	6.70

2. Business Review

Key operational data	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Mobile customers in 000						
Number of customers	2,323	2,332	0.4%	2,323	2,332	0.4%
- Prepaid	1,211	1,202	-0.7%	1,211	1,202	-0.7%
- Postpaid	1,112	1,130	1.6%	1,112	1,130	1.6%
Minutes of use (MOU) per average customer	195	200	2.4%	198	190	-4.3%
Blended ARPU (monthly average for the period in HRK)						
- Prepaid	43	42	-1.8%	46	45	-2.2%
- Postpaid	109	110	1.3%	112	113	1.2%
SAC per gross add in HRK	88	93	5.9%	76	81	6.0%
Churn rate (%)	2.3	2.1	-0.2 p.p.	2.2	1.5	-0.7 p.p.
Penetration (%) ¹⁾	115	120	5.7 p.p.	119	120	1.3 p.p.
Market share of customers (%) ¹⁾	47	46	-0.1 p.p.	46	47	0.3 p.p.
Smartphone customers (%) ²⁾	43	58	15.2 p.p.	47	58	10.9 p.p.
Smartphones sold (%) ³⁾	76	80	4.0 p.p.	78	80	2.0 p.p.

¹⁾ Source: internal estimation of the competitors customers for EO September 2016

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	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	996	935	-6.2%	996	935	-6.2%
Fixed mainlines - wholesale (WLR - wholesale line rental)	108	88	-18.1%	108	88	-18.1%
ARPU voice per user (monthly average for the period in HRK) ²⁾	91	85	-6.4%	90	84	-6.7%
IP mainlines/customers in 000						
Broadband access lines - retail ³⁾	603	611	1.3%	603	611	1.3%
Broadband access lines - wholesale ⁴⁾	95	129	35.2%	95	129	35.2%
TV customers	385	394	2.4%	385	394	2.4%
Broadband retail ARPU (monthly average for the period in HRK)	125	122	-2.3%	126	123	-1.9%
TV ARPU (monthly average for the period in HRK)	81	82	1.3%	82	83	1.3%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	159	151	-5.0%	159	151	-5.0%

¹⁾ Includes PSTN, FGSM and old PSTN Voice customers migrated to IP platform; 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

- Significant efforts taken to maintain position in the market
 - HT managed to keep the leading mobile market share with stable estimated portion of 46.4%
 - Several new products were launched to fight decline in fixed market
 - HT Group increasing broadband access capacity and availability to maintain a leading position as the largest fixed broadband operator in Croatia which has started to offer LTE throughput of 262.5 Mbps in download
 - HT has launched Magenta1as fixed and mobile convergent offer that defines trend of new market drive
- The main financial KPIs stabilized
 - Revenue is stable comparing to 3Q 2015, only HRK 6 million or 0.1% below, lower fixed voice, broadband and system solutions were partially offset by growing mobile and energy business
 - EBITDA is above 3Q 2015 by HRK 13 million or 0.6%
- Key strategic milestone for 2016 developing
 - The strategic program Horizont 2016 is continued with the launch of third wave planned projects "E-Strategy" and "Simplify Processes".
 - Magenta1 results confirm FMC as the main market driver, at the end of September 32 thousand households achieved
- Significant investment in network driven by integrated network strategy and regulatory demand
 - Capex is above 3Q 2015 by HRK 75 million or 8.3%
 - HT enabled indoor population with LTE services coverage increased from 65.0% at the beginning of 2016 to 67.6% at the end of 3Q 2016, „outdoor“ coverage increased up to 95.6%
 - Maximal LTE throughput increased from 225 Mbps to 262.5 Mbps
 - Optical access network FTTX access is enabled for 257 thousand households at the end of 3Q 2016
 - HT enabled 52% of Croatian households with NGA speeds bringing Croatia closer to Digital Agenda targets
- New source of growing potential
 - ICT the strongest in the area of customized ICT solutions and IP communication
 - Energy is establishing as a sustainable business, highly innovative offer from telco energy convergent proposition has been launched

Mobile telecommunications

Mobile customer base increased by 0.4%, to 2,332 thousand customers at the end of 3Q 2016 in comparison to 3Q 2015 mainly as a result of good respond on mobile attractive tariffs "Najbolje"

launched in second half of 2015, growth in M2M and mobile internet and launch of Magenta1 convergent offers in March 2016. Increase was partially offset by overall aggressive competitors offers on the market and decrease of customers with double SIM cards due to continuing trend of favorable flat and cross net offers.

Number of postpaid customers was higher by 1.6% than at the end of 3Q 2015 as a result of overall push of successful and attractive tariffs and handsets as well as Mobile Net offers.

In March HT launched sales of Samsung Galaxy S7 and Samsung Galaxy S7 Edge, the new generation of Samsung's most popular smartphone. The phones are available in the "Najbolje" tariffs plans which include the highest 4G speed with the highest 4G coverage in Croatia. Furthermore, new, most powerful iPhone 7 started selling in HT end of September.

End of March HT presented its new unique concept of premium customer experience and benefits called Magenta1, which 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 including Samsung J3.

The goal of Magenta1 is to ensure complete services for the household and the best mobile and fixed services to all customers. All private customers will enter the Magenta1 world immediately if they use HT's internet line in their household and at least one mobile HT line and will become a part of whole new world of special, custom-made offers and benefits. On the occasion of presenting Magenta1, in April 2016, HT organized a free concert of popular Croatian artists Gibonni and Oliver as a gift to citizens. Second wave Magenta1 campaign was launched in Q2 prior to European Football championship together with giveaway on social networks that invited everyone to support the Croatian national football team. End of September new campaign was introduced communicating all benefits and attractiveness of Magenta1 offer which was further enriched by Playstation 4 for only HRK 598 and mobile option for additional GB for only HRK 9 each.

New image campaign "Feel connected all over Europe. With the best network." was launched in Croatia and other Deutsche Telekom subsidiaries with Andrea Bocelli, famous Italian tenor, as a face of new campaign. Campaign highlights the overarching idea of a connected Europe and borderless communication.

The first multimedia T-center opened in September in Zagreb on Vukovarska Street offers an improved customer experience, innovative and new services and high-tech products like smart watches, virtual reality handsets, drones and high quality HD TV's.

Number of prepaid customers was 0.7% lower than in 3Q 2015 due to overall decline of prepaid market 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. HT prepared a special offer for tourists this summer including 7 days of flat mobile internet at 4G speed (up to 75 Mbit/s) in Croatia for HRK 85.

In addition to the existing weekly and monthly "Zmajska" option, Simpa offers its customers two new monthly offers "Zmajčić" and "Zmajić" which provide even greater flexibility. Offers were further enriched with new option which allows transfer of MB/min/SMS from "Zmajska" option to other Simpa customer account. The special promo offer of extra 1,000 units on top of the 3,000 MB/min/SMS included in existing "Zmajska" option for HRK 59 monthly has ended on 31st of August.

Bonbon continued with bringing its customers additional value, this time through new media campaign “Rollover” which enables its customers to transfer unused units (MB, min, SMS) into next month when package automatically reactivates. “Moćni noćni paket” with additional number of MB/min/SMS from 19pm to 7am for only HRK 10 is still available for all Bonbon customers. Furthermore, all customers are able to set their own combination of smartphones/gadgets with additional discounts available. Among other well-known Bonbon benefits, new postpaid users are still able to get discounts on L and XL packages, 1,000 minutes and 1,000 SMS until 2020 and can set their spending limit according to their possibilities.

HT customers who have activated the option Road assistance for Croatia or Europe can use the DriverAngel application free of charge.

HT innovative mobile advertising service, Kupon2go, which sends users text messages or push notification informing them about sales and discounts at stores near their location, was further improved with developed mobile application for Apple’s and Android devices.

At the end of 3Q 2016, minutes of usage per average customer increased by 2.4% compared to the 3Q 2015 and it is in line with overall market trends of fixed to mobile substitution and free minutes included in tariff.

Blended ARPU increased by 1.3% compared to 3Q 2015 as a result of better tariff mix and good results of tariffs “Najbolja”.

Fixed line

By the end of 3Q 2016, total fixed access mainlines of 935 thousand were by 6.2% lower than at the end of 3Q 2015, but decrease is slowing down (6.7% in 3Q 2015 vs 3Q 2014). Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro - and reactive churn prevention offers and activities.

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

Fixed voice ARPU decreased by 6.4% compared to 3Q 2015 as a result of mentioned general market trends and lower usage.

Broadband

At the end of 3Q 2016 broadband customer base was higher by 1.3% in the comparison to the end of 3Q 2015 reaching 611 thousand, due to Magenta1 proposition offer results.

At the same time broadband retail ARPU was 2.3% below 3Q 2015 at the level of HRK 122 due to stronger competition and aggressive offers in the market. To mitigate the decrease HT continues with push of MAX2/MAX3 packages and Ultra MAX packages on FTTH. The offer was accompanied by attractive promo options included in the price and MAXtv for all new Ultra MAX customers for HRK 1 for first 9 months of usage. These packages are based on FTTH technology which enables ten times higher speed than the standard ADSL. In addition at the end of March 2016 new convergent Magenta1 Business packages were launched, consisting of flat fixed and mobile service with highest available speeds, 4G backup, network security and Cloud storage of 1 Terabyte capacity. HT will

continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones.

Furthermore, HT launched new 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 Alcatel One Touch Pixi 3 8" 3G for only HRK 99 with special simplified applications and screen for easy use.

3Q 2016 result was influenced by contribution of Smart office packages launched in Q4 2015 for small and medium business customers with high speed flat internet and fixed line, including antivirus protection, Business Connect application and possibility of 4G backup, making it unique and most reliable connection for business customers on Croatian market.

TV

TV customer base increased by 2.4% in comparison to 3Q 2015 year as a result of continuous service and program offer improvements which resulted with higher TV ARPU by 1.3% in comparison to 3Q 2015 driven by premium content and enriched exclusive TV content. Moreover, HT continued with promotion of MAXtv package Pickbox which contains more than 70 hit series and 300 movies and covers the majority of Hollywood productions. Furthermore, Pickbox can be used in the same time on TV and other devices – mobile phone, tablet or laptop without any additional fee.

Satellite TV, which is an extension of classical IPTV service, 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 9 months for activations during promo period.

Wholesale

At the end of 3Q 2016 there were 151 thousands of active ULL lines, which was lower by 5.0% in comparison to the same period last year. Number of ULL lines decreased due to higher focus of alternative operators to broadband services.

Broadband wholesale access lines (BSA and naked BSA lines) reached 129 thousands at the end of 3Q 2016, which was 35.2% above number of lines at the end of same period in 2015 with driver being high increase of number of naked BSA lines.

Number of WLR lines at the end of 3Q 2016 decreased by 18.1% compared to previous year and reached 88 thousands as a result of declining voice market and migration to broadband services. As a consequence of WLR offer, the number of "pure" CPS customers was reduced comparing to the same period last year.

Growth in number of ported numbers compared to last year is mainly connected with growth of broadband wholesale access lines.

In 3Q 2016 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 35.5% in volume comparing to the same period last year.

In the international wholesale market total capacity of sold IP and data services increased by 4.6% where only sales of IP services grew by 41.9% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2016, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 23.6% more voice originating minutes and 155.8% more data traffic than in the same period last year. At the same time, on the wholesale cost side, HT's mobile customers generated 37.7% more roaming voice traffic in foreign countries and 471.1% more data traffic. During 2016, additional 4G (LTE) international roaming services with foreign partners were set up reaching 87 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 19.4% compared to the same period 2015. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 15.6% and from HT mobile network users increased by 21.5%.

System solutions

Continuous growth in all portfolio segments was driven by HT Group's strategic focus in the area of Cloud and Managed Solutions. The strongest growth was recorded in the area of customized ICT solutions.

Focus continues to be on market education and customer experience to further strengthen leading position of HT Group on the market. Additionally, high focus is on development of telco and ICT converged proposition. The biggest projects were recorded in the banking, real and telecommunication sector in all production/service segments, but primarily in the IP communication and security, IT infrastructure and professional solutions segment.

Energy

Revenue from energy was higher by HRK 37 million or 108.9% compared to 3Q 2015 due to higher number of customers by 19.8%. Growth is present in both residential and business segment with even more positive outlook in the future. Telco-energy convergent proposition is in focus with intention to increase customer loyalty.

3. Group financial performance

3.1 Revenue

In order to maintain consistency with the 2016 year presentation of revenues in new structure, previous year items were reclassified for comparative purposes. The main revenue items used in the past for the revenue presentation: voice revenue, non voice revenue, other service revenue, terminal equipment revenue and miscellaneous revenue are changed to new categories: mobile revenue, fixed revenue, system solution revenue and miscellaneous. This change makes the financial data of HT Group more comparable with other market participants.

Total consolidated revenue decreased by HRK 6 million or 0.1% to HRK 5,184 million in 3Q 2016 in comparison to 3Q 2015. Decrease is driven by lower fixed revenue (97 million or 3.7%) and system

solution revenue (HRK 13 million or 2.8%), but this decrease is partially offset by increase in mobile revenue (HRK 68 million or 3.3%), and miscellaneous revenue (HRK 36 million or 85.8%).

Contribution of subsidiaries in Group revenue in 3Q 2016 amounted for Iskon HRK 283 million (3Q 2015: HRK 285 million) and for Combis HRK 312 million (3Q 2015: HRK 367 million).

Optima Telekom contribution to HT Group amounted to HRK 221 million in 3Q 2016 (3Q 2015: HRK 225 million) and consisted of HRK 332 million of Optima Telekom third party contribution (3Q 2015: HRK 323 million) that was presented in the whole amount under other fixed revenue and HRK 111 million of inter-company relations that decreased mainly fixed wholesale revenue (3Q 2015: HRK 98 million).

Mobile revenue

Mobile revenue rose by HRK 68 million or 3.3% to HRK 2,117 million in 3Q 2016 in comparison to 3Q 2015. The growth resulted mainly from higher handset revenue and postpaid revenue, while prepaid revenue and other mobile revenue decreased.

From total deviation, HRK 84 million or 6.4% came from residential segment, while business segment contributed negatively (HRK 15 million or 2.1%).

The 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 mobile data revenue as both number of subscribers (1.6%) and usage increased as a result of continuous substitution trend of traditional voice and SMS services with data, higher number of data traffic included in tariff bundles and increasing share of customers having smartphones. Tariffs “Najbolja” introduced in 2015 contributed to higher data revenue with focus on 4G network services included in tariffs.

Postpaid SMS revenue increased 13.6% as a result of higher number of messages sent by 0.7%.

MTC revenue increased 8.3% as a result of deregulation of non EU international termination rate from April 2015. Rate was increased from 0.063 HRK/min in H1 2015 to 1.73 HRK/min in H1 2016 and additionally increased to 2.00 HRK/min in July 2016.

This revenue increase was offset by decline in voice revenue due to fierce price competition.

Prepaid revenue decrease was a result of lower retail revenue and MTC. The retail prepaid was lower due to lower customer base by 0.7% that resulted with lower voice and SMS revenue. Revenue decline was partially compensated by mobile data growth as a result of continuous promotional offers with focus on data traffic and 4G speed (Bonbon “Moćni noćni” package and Simpa “Zmajaska” option). Decrease in MTC revenue came from lower usage.

Other mobile revenue decrease was driven by wholesale due to lower national roaming revenue since new contract conditions valid from June 2015, partially offset by higher visitors due to higher usage. Interest and dunning revenue were lower, while other mobile increased due to higher effect of

regulator fee introduced from July 1st, 2014 due to higher number of customers and higher revenue from termination of inactivated vouchers.

Fixed revenue

Fixed revenue dropped by HRK 97 million or 3.7% to HRK 2,527 million in 3Q 2016 in comparison to 3Q 2015. The fall resulted mainly from lower voice revenue, broadband revenue and terminal equipment revenue but it was partially compensated by higher wholesale revenue, TV revenue, other fixed and data communication revenue.

From total deviation, HRK 99 million or 6.7% came from residential segment and HRK 6 million or 0.8% came from business segment while Optima consolidated segment contributed more.

In 3Q 2016, fixed line voice retail revenue decreased in comparison to 3Q 2015 mainly as a result of continuous decline in the number of fixed mainlines by 6.2% 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 per user declined by 6.4%. ARPU decline is a result of more low value residential customers using fixed voice services (mostly elderly population).

To slow down erosion of customer base, pro- and reactive churn prevention actions are taken. In residential segment new attractive fixed line tariffs were introduced, accompanied with phone connection for HRK 1 with 24 MCD. In business segment, new Smart Office packages were introduced in order to ensure stable customer base development.

Decrease in broadband revenue was a result of lower broadband retail ARPU by 2.3% despite of slightly higher broadband customer base by 1.3%. ARPU decline is a result of stronger competition and aggressive offers in the market. To mitigate the decrease HT continues with push of MAX2/MAX3 packages and Ultra MAX on FTTH. Customer base slightly higher as a result of Magenta1 proposition offer.

Fixed wholesale revenue increased mainly due to higher infrastructure wholesale revenue driven by NBSA growth. Positive contribution from data revenue mainly coming from capacity and positive contribution from deregulation of international prices as of April 1st, 2015 was offset by lower termination traffic in 3Q 2016.

TV revenue increased in comparison to the same period last year due to increased TV customer base by 2.4% and higher ARPU by 1.3% as a result of continuous service and program offer improvements driven by premium content and enriched exclusive TV content. Moreover, HT continued with promotion of MAXtv package Pickbox which contains more than 70 hit series and 300 movies and covers the majority of Hollywood productions.

Other fixed revenue increase was driven by higher contribution of Optima consolidated segment and revenue from online consumer services that was partially offset by lower revenue from dunning and interest revenue due to earlier collection of receivables and value added services.

Fixed retail data revenue increase mainly came from higher Ethernet service ARPU and customer base.

System Solutions

System solution stream continued to be significant source of HT Group revenue realization. System solution revenue decreased by HRK 13 million or 2.8% to HRK 461 million in 3Q 2016 in comparison to 3Q 2015 due to different dynamic of project realization.

Lower Combis contribution is mainly coming from late in project realization with government institutions due to government instability in 2016 while HT Inc contributed with growth, mostly in sale of ICT equipment, licenses, specific IP communication and safety equipment, enterprise software/professional solutions, but also in providing consulting services.

Miscellaneous revenue

Miscellaneous revenue increased by HRK 36 million or 85.8% to HRK 78 million in 3Q 2016 in comparison to 3Q 2015.

Increase in miscellaneous revenue mainly comes from energy business (HRK 37 million or 108.9%) due to higher customer base (19.8%). Efforts to increase customer loyalty are being undertaken constantly.

3.2 Operating expenses

Total consolidated operating expenses decreased by HRK 13 million or 0.4% to HRK 3,227 million in 3Q 2016.

This decrease was a result of lower employee benefits expenses (HRK 49 million or 6.3%), write down of assets (HRK 28 million or 49.1%) and higher work performed by the Group and capitalized (HRK 10 million or 18.3%) partially offset by higher material expenses (HRK 46 million or 3.1%) and other expenses (HRK 27 million or 2.7%).

Excluding redundancy costs of HRK 62 million (3Q 2015: HRK 87 million), operating expenses increased by HRK 12 million or 0.4% to HRK 3,165 million in 3Q 2016.

3.2.1 Material expenses

Material expenses increased by HRK 46 million or 3.1% to HRK 1,508 million in 3Q 2016 as a result of higher merchandise, material and energy expenses (HRK 30 million or 3.3%) and services expenses (HRK 15 million or 2.8%).

Merchandise, material and energy expenses increased mainly due to higher energy sales cost which is in line with energy revenue growth. In addition, merchandise costs increase was mainly driven by higher mobile merchandise while system solution merchandise was lower that is in line with system solution revenue and fixed merchandise was lower compared to 3Q 2015.

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. Fixed merchandise decrease is a result of lower focus on fixed only services.

Services expenses increase was driven by higher copyright fees increase which was mainly result of higher number of TV customers by 2.4% and enriched content included in TV packages while telecommunication cost increased mainly due to higher incoming non EU traffic towards domestic fixed and mobile operators.

3.2.2 Employee benefits expenses

Total employee benefits expenses decreased by HRK 49 million or 6.3% to HRK 725 million in 3Q 2016 in comparison to the same period last year as a result of lower redundancy costs (HRK 25 million or 28.9%) and lower other personnel costs (HRK 23 million or 3.4%) due to lower number of employees and lower rights from collective agreement per employee.

Number of FTE decreased from 4,750 in 3Q 2015 to 4,464 in 3Q 2016 mainly due Headcount Optimization program partially compensated by new employments.

3.2.3 Other expenses

Other expenses increased by HRK 27 million or 2.7% to HRK 1,028 million in 3Q 2016 mainly due to higher external employment costs, provisions for legal cases, selling commissions, and advertising expenses that were partially compensated by lower maintenance costs, consulting fees, legal and audit and postal expenses.

Increase in external employment cost mainly came from additional engagement of agency technicians and agents in call centre, as well as additional sales activities in residential segment.

Increase in selling commissions came from strong sales initiatives undertaken which resulted with more transaction realized in indirect sales channel coming from door2door and telesales activities.

Advertising costs increased as a result of marketing campaign that supported Magenta1 launch.

Decrease in maintenance was a result of lower cost in network due to better conditions negotiated with vendors related SLA contracts and vouchers.

3.3 Write down of assets

The assets write down decreased by HRK 28 million or 49.1% to HRK 29 million in 3Q 2016 mainly due to lower value adjustment of receivables as a result of earlier collection of receivables. Better collection of receivables is the result of new implemented activities in the process of collection that include the sale of account receivables.

3.4 Depreciation and amortization

Depreciation and amortization decreased by HRK 51 million or 4.7% to HRK 1,038 million in 3Q 2016 mainly due to lower amortization of software licences.

3.5 HT Group profitability

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 13 million or 0.6% to HRK 2,112 million in 3Q 2016. This increase was a result of higher other operating income (HRK 30 million or 48.0%), partially compensated by higher operating expenses (HRK 12 million or 0.4%) and lower revenue (HRK 6 million or 0.1%).

Other operating income increased by HRK 30 million or 48.0% compared to HRK 63 million in 3Q 2015 mainly as a result of higher sale of fixed assets mainly coming from sale of lands in Rijeka and Požega as well as sale of vehicles, and commitment write off related to obligation for antenna poles retirement.

Optima Telekom contribution to 3Q 2016 Group EBITDA amounted to HRK 76 million (3Q 2015: HRK 78 million) and consisted of HRK 175 million of Optima Telekom third party contribution (3Q 2015: HRK 168 million) and HRK 99 million of inter-company relations (3Q 2015: HRK 90 million).

Net profit after non controlling interests

In comparison to 3Q 2015, consolidated net profit after non controlling interests increased by HRK 21 million or 2.9% to HRK 752 million in 3Q 2016. Net profit after non controlling interests increased due to higher EBITDA before EI (HRK 13 million), lower depreciation and amortization (HRK 51 million), lower exceptional items (transformation related redundancy costs by HRK 25 million) that were partially offset higher financial expenses (HRK 41 million), lower financial income (HRK 14 million), higher taxation (HRK 7 million) and lower contribution from non controlling interests (HRK 5 million).

Negative contribution of financial expenses by HRK 41 million mainly coming from exchange rate loss resulted from EUR exchange rate decline. Financial income decline of HRK 14 million is mainly driven by lower contribution from investment in joint ventures and lower exchange rate gain, partially offset by higher interest income.

Optima Telekom contributed to HT Group net profit by loss of HRK 2 million (3Q 2015: loss of HRK 3 million).

3.6 Balance sheet

Total value of assets decreased by HRK 69 million or 0.5% to HRK 14,011 million in comparison to end of year 2015. This is caused by decrease within prepaid expenses relating to concession fees resulted from regular transfer to expenses that is partially offset with increase in trade receivables of HRK 57 million mainly relating to international trade receivables due to touristic season.

Total issued capital and reserves increased from HRK 11,641 million at 31 December 2015 to HRK 11,923 million at 30 September 2016. This is mainly due to net profit for 3Q 2016 in the amount of HRK 752 million that is offset with dividend payment of HRK 491 million.

Total current liabilities decreased by HRK 372 million or 19.8% to HRK 1,510 million at 30 September 2016 mainly due to the settlement of higher payables for capital expenditures at 2015 year end.

3.7 Cash flow

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

Net cash flow from operating activities decreased by HRK 70 million or 4.1% mainly due to higher payments for value added tax in comparison with 3Q 2015 when corporate income tax paid in advance was used for settlement of value added tax liabilities. This was partially offset by lower payments for operating expenditures.

Net cash flow from investing activities decreased by HRK 569 million or 131.4% mainly due to significant maturity of financial assets in previous 3Q 2015 (mostly time deposits and REPO arrangements) and higher capex paid in 3Q 2016 compared to 3Q 2015.

Net cash flow from financing activities increased by HRK 34 million or 4.4% mainly due to lower dividend paid in 2016 when compared to 2015.

3.8 Capital expenditure

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15	Q3 2015	Q3 2016	% of change A16/A15
HT Group	902	977	8.3%	315	332	5.3%
Capex/ Revenue ratio	17.4%	18.8%	1.5 p.p.	16.7%	18.6%	1.9 p.p.

Note: 3Q 2015 restated for ECI capitalization (HRK +44 million)

Capital expenditure realization is increased by HRK 75 million or 8.3% to HRK 977 million in 3Q 2016 in comparison to 3Q 2015 mostly due to investment resulted from integrated network strategy.

INS (Integrated Network Strategy) in 3Q 2016 continued with efforts to bring households up to NGA speeds (30Mbps plus) and ultra-fast NGA speeds (100Mbps plus) along with providing extensive LTE (4G) coverage in the mobile segment boosting competitiveness and customer experience. One of the main contribution in fixed network by the end of 3Q 2016 was enabled FTTx access for 257 thousand households (increase of 38% compared to EOY 2015). During Q3, HT enabled and offered broadband speeds 2-5 times faster than previously for 180 thousand customers, without any additional charge. From households enabled on NGA, approximately 200 thousand have access to fiber, thereby ultra-fast speeds over 100 Mbps. In total, NGA speeds are enabled for 52% Croatian households solely by HT efforts, bringing Croatia closer to Digital Agenda targets.

In mobile network, "indoor" 4G population coverage has increased from 65.0% to 67.6% since the beginning of 2016, „outdoor“ coverage increased up to 95.6%. Regarding throughput distribution, 4G population coverage of download up to 225 Mbps has been increased from 31% at the end of 2015 to 51% at the end of 3Q 2016. 4G ultra high speeds of 262.5 Mbps in download rollout started.

Strong investment in INS (access network) and speed increase is also followed by investment in core network and service platforms. To follow up enabled NGA speeds, focus is on modernization and network upgrades to meet increased capacity and traffic demands, assure network stability, better performance and provide new functionalities.

4. Overview of segment profitability

After financial consolidation of Optima Telekom into Group results as of Q3 2014, the Group's operating segments are Residential business unit, Business business unit, Network and support functions and Optima 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 functions to the HT 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 revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited. So only financial consolidation is performed, while Optima Telekom non financial KPIs are not included into HT Group achievements.

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

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

4.1 Residential Segment

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change	Q3 2015	Q3 2016	% of change
Mobile revenue	1,312	1,396	6.4%	487	485	-0.4%
Fixed revenue	1,484	1,385	-6.7%	490	463	-5.4%
System solutions	0	0	-	0	0	-
Miscellaneous	29	29	0.8%	11	9	-19.4%
Revenue	2,825	2,809	-0.5%	987	956	-3.1%
Operating expenses	850	874	2.9%	306	286	-6.5%
Contribution to EBITDA before exceptionε	1,975	1,935	-2.0%	681	671	-1.6%

4.2 Business Segment

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change	Q3 2015	Q3 2016	% of change
Mobile revenue	737	721	-2.1%	295	282	-4.5%
Fixed revenue	817	811	-0.8%	276	279	1.0%
System solutions	474	461	-2.8%	216	131	-39.4%
Miscellaneous	14	50	357.1%	6	23	283.3%
Revenue	2,042	2,043	0.1%	793	715	-9.8%
Operating expenses	1,006	998	-0.8%	393	313	-20.3%
Contribution to EBITDA before exceptional items	1,036	1,045	0.9%	400	402	0.4%

4.3 Network and support functions

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change	Q3 2015	Q3 2016	% of change
Other operating income	61	91	49.3%	23	23	-3.6%
Operating expenses ¹⁾	1,140	1,133	-0.6%	383	383	-0.1%
Contribution to EBITDA before exceptional items	-1,079	-1,042	3.4%	-359	-360	-0.3%

- 1) Operating expenses are restated for 3Q 2015 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs at 2015 year end

4.4. Segment Optima Telekom consolidated

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change	Q3 2015	Q3 2016	% of change
Fixed revenue	323	332	2.8%	105	111	5.0%
Revenue	323	332	2.8%	105	111	5.0%
Other operating income	1	1	-8.1%	1	0	-32.3%
Operating expenses	157	159	1.3%	49	50	1.5%
Contribution to EBITDA before exceptional items	168	175	4.0%	57	61	7.6%

5. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue increased by HRK 53 million or 1.2% to HRK 4,441 million in 3Q 2016 when compared to 3Q 2015. Increase was driven by higher mobile revenue (HRK 72 million or 3.5%) coming from mobile data and handset revenues, system solution revenue (HRK 41 million or 38.5%) and miscellaneous revenue (HRK 37 million or 108.2%) coming from energy business. This increase was partially compensated with decrease in fixed revenue (HRK 97 million or 4.4%) mostly resulting from lower voice and broadband revenues compensated by higher wholesale revenue.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 13 million or 0.7% to HRK 1,950 million in 3Q 2016, mainly as a result of higher revenue and higher other operating income mostly driven by sales of fixed assets. This increase was partially compensated by higher operating expenses driven mainly by higher merchandise costs related to growing system solution business and retention activities taken in mobile segment.

Net profit after non controlling interests

Net profit increased by HRK 37 million or 5.3% to HRK 735 million in 3Q 2016. This increase was primarily a result of lower depreciation and amortization, lower personnel redundancy costs, higher EBITDA before exceptional items, higher financial income, partially offset by higher financial expenses mainly related to negative exchange rate differences and higher taxation.

6. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2015 made public, there were no material changes to the Group's risk profile in the period under review.

7. Group 2016 outlook

Revenue

Following a lengthy period of severe recession, Croatia's 2015 GDP was up 1.6% and 2016 forecast shows similar trend, while high levels of unemployment still persist and adverse movements in both public debt and the budget deficit continue.

Telecommunication spending in both the residential and corporate sectors remains subdued, while the competitive environment and a stringent domestic and EU regulatory regime continue to exert pressure on the Group's business.

In light of the environment described above, with Optima Telekom now consolidated for the full 12 months of 2015 and 2016, alongside the contribution from growth areas within the Group, the Board expects 2016 revenue at around the 2015 level.

However, the Group now anticipates that system solutions will be broadly at 2015 levels, as some Government and public sector projects are expected to be deferred.

EBITDA before exceptional items

The economic environment and revenue trends outlined above, along with further changes in the revenue structure, will impact EBITDA accordingly. However, the Group's continued focus on transformation initiatives will help maintain a high level of profitability, and consequently the Board expects an EBITDA margin in 2016 of around 40%.

Investments

As previously announced, total Group investments for 2015 amounted to HRK 1,473 million, which represents a one-off increase of around 35% compared to 2014.

This was mainly due to the need for a significant strategic shift with respect to investment, aimed at both enhancing the Group's market position through the provision of high quality customer services whilst supporting the overall health and competitiveness of the Croatian economy.

In particular, the Group invested significantly in infrastructure in 2015, with an emphasis on fixed and mobile broadband, and, as previously discussed, achieved its year-end 2015 targets of household coverage by Next Generation Access (NGA) >30Mbps fixed broadband of around 50% and LTE (4G) indoor coverage of around 60% of the population.

In 2016, the Group plans to continue significant investment; these are now expected to be around the 2015 level.

8. HT Group Financial statements

8.1 Consolidated Income Statement

in HRK million (IFRS)	Jan-Sep 2015	Jan-Sep 2016	% of change	Q3 2015	Q3 2016	% of change
Mobile revenue	2,049	2,117	3.3%	782	767	-2.0%
Fixed revenue	2,624	2,527	-3.7%	871	852	-2.1%
System solutions	474	461	-2.8%	216	131	-39.4%
Miscellaneous	42	78	85.8%	16	32	94.5%
Revenue	5,190	5,184	-0.1%	1,885	1,782	-5.5%
Other operating income	63	93	48.0%	24	23	-4.4%
Total operating revenue	5,252	5,277	0.5%	1,910	1,805	-5.5%
Operating expenses	3,240	3,227	-0.4%	1,136	1,032	-9.2%
Material expenses	1,462	1,508	3.1%	575	485	-15.7%
Merchandise, material and energy expenses	916	947	3.3%	386	289	-25.1%
Services expenses	546	561	2.8%	189	196	3.6%
Employee benefits expenses	774	725	-6.3%	236	222	-6.1%
Other expenses ¹⁾	1,001	1,028	2.7%	328	341	3.8%
Work performed by the Group and capitalised	-54	-64	-18.3%	-20	-20	-0.6%
Write down of assets	57	29	-49.1%	17	5	-70.2%
EBITDA	2,012	2,050	1.9%	773	773	0.0%
Depreciation and amortization ¹⁾	1,089	1,038	-4.7%	370	347	-6.2%
EBIT	923	1,012	9.6%	403	426	5.7%
Financial income	41	35	-15.0%	18	5	-69.8%
Income/loss from investment in joint ventures	11	4	-65.6%	4	6	29.9%
Financial expenses ¹⁾	81	123	50.9%	22	25	13.8%
Profit before taxes	894	928	3.8%	403	412	2.1%
Taxation	177	184	4.0%	80	79	-0.6%
Net profit	717	744	3.7%	324	333	2.8%
Non controlling interests	-13	-8	40.7%	-1	-2	-178.6%
Net profit after non controlling interests	730	752	2.9%	324	335	3.2%
Exceptional items ²⁾	87	62	-28.9%	7	1	-91.4%
EBITDA before exceptional items	2,100	2,112	0.6%	780	774	-0.8%

¹⁾ Other expenses, Depreciation and amortization, as well as Financial expenses are restated for 3Q 2015 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs

²⁾ Related to redundancy restructuring costs

8.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2015	At 30 Sep 2016	<i>% of change A16/A15</i>
Intangible assets	1,651	1,614	-2.2%
Property, plant and equipment	5,616	5,573	-0.8%
Non-current financial assets	1,033	1,090	5.5%
Receivables	98	105	7.5%
Deferred tax asset	46	54	16.8%
Total non-current assets	8,444	8,436	-0.1%
Inventories	104	120	15.1%
Receivables	1,215	1,272	4.7%
Current financial assets	869	949	9.1%
Cash and cash equivalents	3,175	3,072	-3.2%
Prepayments and accrued income	272	162	-40.4%
Total current assets	5,636	5,575	-1.1%
TOTAL ASSETS	14,079	14,011	-0.5%
Subscribed share capital	9,823	9,823	0.0%
Reserves	445	492	10.6%
Revaluation reserves	4	41	
Retained earnings	268	655	143.9%
Net profit for the period	925	752	-18.7%
Non controlling interests	177	161	-9.1%
Total issued capital and reserves	11,641	11,923	2.4%
Provisions	68	60	-12.1%
Non-current liabilities	443	477	7.6%
Deferred tax liability	45	41	-9.1%
Total non-current liabilities	556	577	3.8%
Current liabilities	1,775	1,417	-20.2%
Deferred income	103	92	-10.2%
Provisions for redundancy	4	1	-86.2%
Total current liabilities	1,882	1,510	-19.8%
Total liabilities	2,438	2,087	-14.4%
TOTAL EQUITY AND LIABILITIES	14,079	14,011	-0.5%

8.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Jan-Sep 2015	Jan-Sep 2016	% of change A16/A15
Profit before tax	894	928	3.8%
Depreciation and amortization	1,089	1,038	-4.7%
Increase / decrease of current liabilities	-99	-141	-43.1%
Increase / decrease of current receivables	71	52	-27.0%
Increase / decrease of inventories	-8	-16	-87.9%
Other cash flow increases / decreases	-234	-217	7.1%
Net cash inflow/outflow from operating activities	1,713	1,644	-4.1%
Proceeds from sale of non-current assets	9	46	
Proceeds from sale of non-current financial assets	1	1	-5.1%
Interest received	15	13	-17.5%
Dividend received	0	3	-
Other cash inflows from investing activities	1,872	1,121	-40.1%
Total increase of cash flow from investing activities	1,898	1,185	-37.6%
Purchase of non-current assets	-833	-957	-14.9%
Purchase of non-current financial assets	-305	-75	75.6%
Other cash outflows from investing activities	-1,193	-1,156	3.2%
Total decrease of cash flow from investing activities	-2,331	-2,187	6.2%
Net cash inflow/outflow from investing activities	-433	-1,003	-131.4%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-15	-14	3.7%
Dividends paid	-573	-491	14.3%
Repayment of finance lease	-3	-7	-104.6%
Other cash outflows from financing activities	-174	-219	-25.9%
Total decrease in cash flow from financing activities	-765	-731	4.4%
Net cash inflow/outflow from financing activities	-765	-731	4.4%
Exchange gains/losses on cash and cash equivalents	8	-13	
Cash and cash equivalents at the beginning of period	2,192	3,175	44.8%
Net cash (outflow) / inflow	523	-103	-119.6%
Cash and cash equivalents at the end of period	2,715	3,072	13.2%

Note: 3Q 2015 Cash flow restated, changes were made on Net cash inflow/ outflow from operating activities and Net cash inflow/ outflow from financing activities due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs at 2015 year end

8.4 Consolidated EBITDA reconciliation

in HRK million	Jan-Sep 2015	Jan-Sep 2016	% of change	Q3 2015	Q3 2016	% of change
Segment Result (Contribution to EBITDA)						
Residential Segment	1,975	1,935	-2.0%	681	671	-1.6%
Business Segment	1,036	1,045	0.9%	400	402	0.4%
Network and Support Functions	-1,079	-1,042	3.4%	-359	-360	-0.3%
Segment Optima consolidated	168	175	4.0%	57	61	7.6%
Total Contribution to EBITDA before exceptional items of the Segments	2,100	2,112	0.6%	780	774	-0.8%
Exceptional items	87	62	-28.9%	7	1	-91.4%
Total EBITDA	2,012	2,050	1.9%	773	773	0.0%

8.5 Notes to the condensed consolidated financial statements for the nine months ended on 30 September 2016

Basis of preparation

The condensed consolidated financial statements as of 30 September 2016 and for the nine months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of HT's consolidated financial statements for the year ended 31 December 2015.

Dividends

On 21 April 2016 General Assembly of Hrvatski Telekom d.d. reached a decision on dividend distribution for 2015 in amount of HRK 491,307,624.00 (6.00 HRK per share).

Dividend was paid in May 2016.

A part of the net profit for 2015 amounting to HRK 47,000,000.00 was used to increase legal reserves.

Segment information

After financial consolidation of Optima Telekom into Group results as of Q3 2014, the Group's operating segments are Residential business unit, Business business unit, Network and support functions and Optima 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 functions to the HT 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 revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited.

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

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

Management of the Group does not monitor assets and liabilities by segments and therefore this information has not been disclosed.

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

Period ended 30 September 2015	Residential	Business	Network and support functions	Optima Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	2.825	2.042	-	323	5.190
Mobile revenue	1.312	737	-	-	2.049
Fixed revenue	1.484	817	-	323	2.624
System solutions revenue	-	474	-	-	474
Miscellaneous revenue	29	14	-	-	43
Usage related direct costs	(161)	(150)	-	(71)	(382)
Income and losses on accounts receivable	(34)	(18)	-	(2)	(54)
Contribution margin I	2.630	1.874	-	250	4.754
Non-usage related direct costs	(371)	(571)	-	(4)	(946)
Segment result	2.259	1.303	-	246	3.808
Other income	-	-	61	1	62
Other operating expenses, restated	(305)	(277)	(1.194)	(83)	(1.859)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(1.089)	-	(1.089)
Operating profit, restated	1.954	1.026	(2.222)	164	923

1 July 2015 to 30 September 2015	Residential	Business	Network and support functions	Optima Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	988	793	-	105	1.886
Mobile revenue	487	295	-	-	782
Fixed revenue	490	276	-	105	871
System solutions revenue	-	216	-	-	216
Miscellaneous revenue	11	6	-	-	17
Usage related direct costs	(56)	(60)	-	(23)	(139)
Income and losses on accounts receivable	(12)	(5)	-	-	(17)
Contribution margin I	920	728	-	82	1.730
Non-usage related direct costs	(145)	(244)	-	(1)	(390)
Segment result	775	484	-	81	1.340
Other income	-	-	23	1	24
Other operating expenses, restated	(95)	(81)	(389)	(25)	(590)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(370)	-	(370)
Operating profit, restated	680	403	(736)	57	404

Period ended 30 September 2016	Residential	Business	Network and support functions	Optima Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	2.809	2.043	-	332	5.184
Mobile revenue	1.396	721	-	-	2.117
Fixed revenue	1.385	811	-	332	2.528
System solutions revenue	-	461	-	-	461
Miscellaneous revenue	28	50	-	-	78
Usage related direct costs	(156)	(158)	-	(73)	(387)
Income and losses on accounts receivable	(5)	(18)	-	(3)	(26)
Contribution margin I	2.648	1.867	-	256	4.771
Non-usage related direct costs	(436)	(564)	-	(7)	(1.007)
Segment result	2.212	1.303	-	249	3.764
Other income	-	-	91	1	92
Other operating expenses	(292)	(269)	(1.169)	(76)	(1.806)
Depreciation, amortization and impairment of non-current assets	-	-	(1.038)	-	(1.038)
Operating profit	1.920	1.034	(2.116)	174	1.012

1 July 2016 to 30 September 2016	Residential	Business	Network and support functions	Optima Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	956	715	-	111	1.782
Mobile revenue	485	282	-	-	767
Fixed revenue	463	278	-	111	852
System solutions revenue	-	131	-	-	131
Miscellaneous revenue	8	24	-	-	32
Usage related direct costs	(52)	(62)	-	(24)	(138)
Income and losses on accounts receivable	(4)	1	-	(1)	(4)
Contribution margin I	900	655	-	85	1.640
Non-usage related direct costs	(140)	(168)	-	(1)	(309)
Segment result	760	487	-	84	1.331
Other income	-	-	22	1	23
Other operating expenses	(90)	(84)	(384)	(23)	(581)
Depreciation, amortization and impairment of non-current assets	-	-	(347)	-	(347)
Operating profit	670	403	(709)	62	426

Relations with the governing company and its affiliated companies

In the first nine months of 2016 there were no transactions among related parties with a significant impact on the financial position and operations of the Group in the given period.

In the first nine months of 2016 there were no changes in transactions among related parties which were specified in the annual financial report for 2015 and which had a significant impact on the financial position and operations of the Group in the first nine months of 2016.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first nine months of 2016 and the governing company and affiliated companies thereof can be classified as follows:

Transactions with related companies

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

In the first nine months of 2016 the Group generated total revenue from related companies from international traffic to the amount of HRK 84 million (the first nine months of 2015: HRK 58 million), while total costs of international traffic amounted to HRK 67 million (the first nine months of 2015: HRK 60 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 5 million in the first nine months of 2016 (the first nine months of 2015: HRK 10 million).

Compensation of the Supervisory Board

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

In the first nine months of 2016 the Company paid a total amount of HRK 0.6 million (the first nine months of 2015: HRK 0.6 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first nine months of 2016 the total compensation paid to key management personnel of the Group amounted to HRK 30 million (first nine months of 2015: HRK 31 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

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

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

The management report for the first nine months of 2016 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. Josef Thürriegel, 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

Zagreb, 27 October 2016

10. 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.

References to "HT" or the "Company" are to the Company Hrvatski Telekom d.d. 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 in this publication to “Agency” are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.

11. 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