



Zagreb – 23 February 2017

Hrvatski Telekom Results for the year ended 31 December 2016

Increased investment and growth of all financial indicators in 2016 lay the foundations for expansion of business operations

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its audited results for the year ended 31 December 2016.

In 2016, Hrvatski Telekom generated revenue amounting to HRK 6.97 billion, which is by 0.7% above the 2015 results. HT has maintained its leading position in all segments of the telecommunications market, the main contributors being mobile and wholesale revenues, growth in the ICT segment, and the electricity business.

EBITDA before exceptional items amounts to HRK 2.82 billion, which is a 1.4% increase compared to 2015, along with a strong EBIDTA margin of 40.5%, which is 0.3 percentage points above the previous year.

2016 net profit amounts to HRK 934 million, which is HRK 9 million, i.e. 1.0 %, above 2015.

More than HRK 1.6 billion of investment in infrastructure and innovative services

Last year, Hrvatski Telekom increased investment to HRK 1.61 billion, or 9.1% compared to the previous year. Investment was focused on increase of the broadband Internet access capacity, customer experience improvement, and increase of competitiveness.

Investment in the fixed network resulted in fibre optic access for 295 thousand households, representing a 68% increase compared to 2015. Broadband access speeds were increased by two to five times as compared to the previous ones, free of charge, for more than 50% of customers.

NGA speeds above 30 Mbit/s were enabled, in total, for 800 thousand Croatian households, thus bringing Croatia closer to the European Digital Agenda targets.

In the mobile segment, 4G network coverage for download speeds of up to 225 Mbit/s increased to 51% of the population compared to 31% coverage at the end of 2015. 4G mobile network outdoor coverage increased from 93.1% to 96.9% compared to the previous year.

The new, unique concept of service offering on the Croatian telecommunications market, Magenta 1, launched in H1 2016, was accepted by more than 53 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 2016 net profit, which is a total amount of HRK 491.3 million (54% of net profit) earmarked for dividend payment, and that the remaining part of net profit amounting to HRK 417.5 million be allocated to retained earnings.

Furthermore, Hrvatski Telekom also announces its intention to launch a Company's Share Buyback Programme at the Zagreb Stock Exchange, in line with the decision of the General Assembly of 21 April 2016 granting the Management Board authority to acquire Company's shares. Upon completion of all internal procedures and provided that market circumstances are satisfactory, the Company will announce the scope, volume, and duration of the Company's Share Buyback Programme in accordance with the applicable legislative framework.

As previously announced, 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 2017, the Management Board currently expects the payment of dividend to a minimum amount of HRK 6.00 per share.

Regional expansion into Montenegro

In early January 2017, Hrvatski Telekom acquired a 76.53% stake in Crnogorski Telekom, for a purchase price of EUR 123.5 million. This transaction is part of the HT's growth strategy through expansion into regional markets. With this acquisition, HT expects to generate additional value for its shareholders and customers through substantial synergy effects.

In 2017, focus on customer experience and expansion of business operations

Commenting on the 2016 business results and plans for 2017, **Davor Tomašković**, President of the Management Board of Hrvatski Telekom, said:

"We look back at a very successful year, in which we saw an increase of all financial indicators and continued to make substantial investments in infrastructure and company transformation.

We have fully reversed the falling trends and laid the foundations for growth and, by acquiring a majority stake in Crnogorski Telekom, we have expanded onto the regional market at the beginning of 2017. We will continue monitoring opportunities for regional expansion.

We will keep our focus on the strategy of growth of Hrvatski Telekom as a leader on the national and regional telecommunications and digital services market."

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A conference call for analysts and investors will be held at 13:00 UK time / 14:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In
Conference ID

+44 (0) 1452 555 566
74286963

A replay of the call will be available until Thursday, 2 March 2017 using the following details:

International Dial In
Replay Access Code

+44 (0)1452 550 000
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Full audited accounts for HT Group and HT d.d., other prescribed documentation as well as a presentation covering results for the 2016 financial year, can be downloaded from the HT web site. (www.t.ht.hr/eng/investors/) and are fully available in the Official Register of Prescribed Information (SRPI).

1. Review

1.1 Introduction

HT Group's good performance in 2016

HT Group has successfully responded to market challenges and continued to lead the Croatian telecommunications market across all business segments in 2016. Differentiation of HT Group offers and positioning of brands contributed to strengthen position on the market.

1.2 Market overview

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

The consolidation activities in the telecommunications market continued in 2016. Optima Telekom submitted an official request for acquisition of H1 Telekom in July 29th, while Vipnet took over the controlling share in Metronet in December 2016. Besides official M&A activities, there was a Christmas promotional offer as a co-operation between a mobile network operator with a content provider.

Croatian mobile market has been determined by strong competition and regulatory measures that impact mobile revenue. Estimated mobile SIM penetration rate was 113.9% at the end of December 2016. The estimated Company's share of total mobile customers remains stable at 47.0% at the end of December 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, the total number of sent SMS messages continued to decrease on annual basis by 9.8% in the first nine months of 2016 and total mobile market minutes of use (MOU) grew by only 1.3% in the same period.³ On the other hand, total broadband traffic grew by 37.0% in the first nine months of 2016 compared to total traffic in 3Q 2015.³

Total fixed originating voice minutes continued to decline by 8.4% on yearly level in the first nine months of 2016.¹

According to the Croatian Post and Electronic Communications Agency, Croatian fixed broadband market continued to grow yearly by 5.1% in September 2016, reaching more than 1,025 thousand fixed broadband connections.⁴ The share of fixed high-speed broadband (>30Mbps) connections grew from 3% in Q3 2015 to 11% in Q3 2016. This is a result of fixed operators' higher investments in network and increased user demand for high-speed internet access service.²

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 618 thousand of broadband access lines at the end of December 2016.

¹ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3 2016

² Source: Croatian Post and Electronic Communications Agency's quarterly report for Q3 2016

The Croatian Pay TV market continues with growth in 2016, reaching 785 thousand customers in September 2016 (+ 4.6% on yearly level).⁴

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.

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 2016 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 134 thousand at the end of December 2016, which is increase of 28.0% compared to the end of 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 148 thousand of ULL access and 83 thousand of WLRs at the end of 2016.

IT market

According to IDC Adriatics³, 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 customers are held by alternative suppliers. The profit margins on supply in business are suppressed due to competition. 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.

1.3 Economic background

In the first half of 2016, growth strengthened for the seventh consecutive quarter to 2.8%, after six years of recession. This was the result of the growth in exports, increased private consumption, and a rebound of investment. Croatian GDP growth speeded up in Q3 2016 (+2.9% on yearly level). Growth was broad-based, with an encouraging performance from industrial production and retail trade and robust tourist and construction activity. Positive economic activities continued in the last quarter of 2016 (growth of industrial production and personal consumption) that might impact on estimated

³ Source: IDC Adriatics, May 2016

GDP's yearly growth by 2.6% in Q4 2016. Therefore, expected GDP's growth for the whole 2016 is expected to reach 2.8%.⁴

The registered unemployment rate kept decreasing trend in 2016 compared to 2015 level. In November 2016 registered unemployment rate stood at 14.4% (down by 3.3pp in annual terms).⁵ Besides new employment, growing emigration of active population to the EU countries additionally reduced the unemployment rate.

Reported average net income for October 2016 amounted to HRK 5,642 (up by 0.1pp in annual terms).² Average annual inflation rate in 2016, calculated by Consumer Prices Index (CPI), was -1.1%.²

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 2016 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 2016 realized the net profit in the amount of HRK 908,796,891.52.

The distribution of the net profit from 2016 is proposed in the following manner:

- A part of net profit in the amount of HRK 491,313,414.00 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 417,483,477.52 shall be allocated to retained earnings.

The proposed dividend payout amount of HRK 491,313,414.00, or 6.00 HRK per share, is within the range declared as a dividend policy, and is equivalent to 54.06% 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 10 May 2017 (record date). The date on which shares of Hrvatski Telekom d.d. will be traded without a dividend payment right is 9 May 2017 (ex date). The dividend payment claim matures on 22 May 2017 (payment date).

The General Assembly is currently planned to be held on 25 April 2017.

⁴ Source: „Macroeconomic Trends and Forecast“, Croatian National Bank, December 2016; The World Bank

⁵ Source: Croatian Bureau of Statistics

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 2017 net profit.

1.5 Regulatory environment

Roaming regulation

HT's roaming offer is aligned with the EU roaming regulation amendments and HAKOM requirements as of April 30th 2016. Following above mentioned amendments, transitional period in which retail prices of the regulated roaming services in the EEA are defined as a sum of national retail off net price in RoC and roaming surcharge has begun. Amounts of roaming surcharges and maximum prices of regulated roaming services in the EEA are limited in accordance with EU roaming regulation.

In December 2016 the European Commission adopted implementing regulation laying down fair use policy to the consumption of regulated retail roaming services and methodology for assessing the sustainability of the abolition of roaming surcharges. Adoption of that regulation and completion of the initiated procedure with the aim of setting new wholesale roaming charges before June 15th 2017 are prerequisites for the end of transitional period and abolition of retail roaming surcharges in EEA as of June 15th 2017.

1.6 Changes in reporting

Optima Telekom

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.

1.7 Summary of key financial indicators

in HRK million

Income statement	2015	2016	% of change A16/A15	Q4 2015	Q4 2016	% of change A16/A15
Revenue	6,919	6,970	0.7%	1,729	1,785	3.2%
Mobile	2,731	2,821	3.3%	682	703	3.1%
Fixed voice	1,092	953	-12.7%	260	227	-12.6%
Broadband & TV	1,328	1,315	-1.0%	326	329	1.0%
Fixed wholesale	339	365	7.5%	89	94	5.2%
Other fixed	714	727	1.9%	174	183	4.9%
System solutions	659	677	2.7%	184	216	16.9%
Miscellaneous	56	112	101.1%	14	34	148.8%
EBITDA before exceptional items	2,783	2,821	1.4%	683	709	3.8%
Exceptional items	91	85	-7.1%	4	23	
EBITDA after exceptional items	2,691	2,736	1.7%	679	686	1.1%
EBIT (Operating profit)	1,199	1,239	3.4%	276	227	-17.6%
Net profit after non controlling interests	925	934	1.0%	194	182	-6.4%
EBITDA margin before exceptional items	40.2%	40.5%	0.3 p.p.	39.5%	39.7%	0.2 p.p.
EBITDA margin after exceptional items	38.9%	39.3%	0.4 p.p.	39.3%	38.4%	-0.8 p.p.
EBIT margin	17.3%	17.8%	0.5 p.p.	15.9%	12.7%	-3.2 p.p.
Net profit margin	13.4%	13.4%	0.0 p.p.	11.2%	10.2%	-1.1 p.p.
Balance Sheet	At 31 Dec 2015	At 31 Dec 2016	% of change A16/A15	At 31 Dec 2015	At 31 Dec 2016	% of change A16/A15
Total non current assets	8,444	8,889	5.3%	8,444	8,889	5.3%
Total current assets	5,636	5,566	-1.2%	5,636	5,566	-1.2%
TOTAL ASSETS	14,079	14,455	2.7%	14,079	14,455	2.7%
Total issued capital and reserves	11,641	12,046	3.5%	11,641	12,046	3.5%
Total non current liabilities	548	561	2.4%	548	561	2.4%
Total current liabilities	1,890	1,847	-2.3%	1,890	1,847	-2.3%
TOTAL EQUITY AND LIABILITIES	14,079	14,455	2.7%	14,079	14,455	2.7%
Cash flow	2015	2016	% of change A16/A15	Q4 2015	Q4 2016	% of change A16/A15
Net cash flow from operating activities	2,367	2,075	-12.3%	653	431	-34.1%
Net cash flow from investing activities	-557	-1,742		-124	-740	
Net cash flow from financing activities	-832	-833	-0.1%	-67	-102	-52.9%
Cash and cash equivalents at the end of period	3,175	2,676	-15.7%	460	-396	-186.1%
	2015	2016	% of change A16/A15	Q4 2015	Q4 2016	% of change A16/A15
CAPEX	1,474	1,608	9.1%	572	631	10.4%
CAPEX / Revenue ratio	21.3%	23.1%	1.8 p.p.	33.1%	35.3%	2.3 p.p.
	At 31 Dec 2015	At 31 Dec 2016	% of change A16/A15	At 31 Dec 2015	At 31 Dec 2016	% of change A16/A15
Number of employees (FTEs)	4,742	4,427	-6.6%	4,742	4,427	-6.6%

RESIDENTIAL SEGMENT

in HRK million	2015	2016	<i>% of change A16/A15</i>	Q4 2015	Q4 2016	<i>% of change A16/A15</i>
Revenue	3,776	3,749	-0.7%	952	939	-1.3%
Contribution to EBITDA before exceptional items	2,611	2,563	-1.8%	636	629	-1.2%

BUSINESS SEGMENT

in HRK million	2015	2016	<i>% of change A16/A15</i>	Q4 2015	Q4 2016	<i>% of change A16/A15</i>
Revenue	2,718	2,780	2.3%	676	737	9.1%
Contribution to EBITDA before exceptional items	1,353	1,360	0.5%	317	315	-0.7%

NETWORK & SUPPORT FUNCTIONS

in HRK million	2015	2016	<i>% of change A16/A15</i>	Q4 2015	Q4 2016	<i>% of change A16/A15</i>
Contribution to EBITDA before exceptional items	-1,406	-1,341	4.6%	-327	-298	8.7%

SEGMENT OPTIMA CONSOLIDATED

in HRK million	2015	2016	<i>% of change A16/A15</i>	Q4 2015	Q4 2016	<i>% of change A16/A15</i>
Revenue	425	441	3.8%	102	109	6.9%
Contribution to EBITDA before exceptional items	224	239	6.4%	56	64	13.5%

1.8 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Twelve months to 31 Dec 2015	7.61	7.63	6.86	6.99
Twelve months to 31 Dec 2016	7.53	7.56	6.80	7.17

2. Business Review

Key operational data	2015	2016	% of change A16/A15	Q4 2015	Q4 2016	% of change A16/A15
Mobile customers in 000						
Number of customers	2,233	2,234	0.1%	2,233	2,234	0.1%
- Prepaid	1,114	1,075	-3.4%	1,114	1,075	-3.4%
- Postpaid	1,119	1,159	3.6%	1,119	1,159	3.6%
Minutes of use (MOU) per average	195	206	5.7%	195	207	5.8%
Blended ARPU (monthly average for the period in HRK)	75	76	1.1%	74	74	0.7%
- Prepaid	43	42	-1.6%	41	40	-0.9%
- Postpaid	109	110	0.9%	108	108	-0.4%
SAC per gross add in HRK	96	105	9.3%	121	146	20.2%
Churn rate (%)	2.6	2.8	0.1 p.p.	3.7	3.9	0.1 p.p.
Penetration (%) ¹⁾	113	114	0.8 p.p.	113	114	0.8 p.p.
Market share of customers (%) ¹⁾	47	47	0.0 p.p.	47	47	0.0 p.p.
Smartphone customers (%) ²⁾	51	57	5.3 p.p.	51	57	5.3 p.p.
Smartphones sold (%) ³⁾	79	79	0.0 p.p.	79	79	0.0 p.p.

¹⁾ Source: internal estimation of the competitors customers for EO December 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	2015	2016	% of change	Q4 2015	Q4 2016	% of change
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	968	924	-4.6%	968	924	-4.6%
Fixed mainlines - wholesale (WLR - wholesale line rental)	104	83	-20.8%	104	83	-20.8%
ARPU voice per user (monthly average for the period in HRK) ^{2),5)}	90	84	-6.8%	89	81	-8.0%
IP mainlines/customers in 000						
Broadband access lines - retail ³⁾	603	618	2.4%	603	618	2.4%
Broadband access lines - wholesale ⁴⁾	105	134	28.0%	105	134	28.0%
TV customers	388	401	3.4%	388	401	3.4%
Broadband retail ARPU ⁵⁾ (monthly average for the period in HRK)	124	122	-2.3%	122	119	-2.0%
TV ARPU (monthly average for the period in HRK)	81	82	1.4%	82	83	1.6%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	159	148	-6.6%	159	148	-6.6%

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

5) ARPU Voice and BB retail restated for 2015

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

Highlights:

- Significant efforts taken to maintain position in the market
 - HT managed to keep the leading mobile market share with stable estimated portion of 47.0%
 - HT has launched Magenta1 as fixed and mobile convergent offer that defines trend of new market drive as a unique concept of integrated services
- The main financial KPIs turned to growth
 - Revenues exceed last year realization by HRK 51 million or 0.7%. Main source of revenue growth are mobile, energy business and system solution.
 - EBITDA exceed last year realization by HRK 39 million or 1.4%
 - Capex is higher by HRK 135 million or 9.1% comparing to 2015
- Strategic achievements
 - The transformation program Horizont 2016 successfully delivered results visible in cost savings, positive mobile and fixed net adds trends
 - Magenta1 results confirm FMC in residential segment as the main market driver, at the end of December 53 thousand households achieved
 - Deutsche Telekom group is determined to play an active role in technological changes and become the first operator to work in the Pan European all IP integrated production model by transforming into a centralized production based on modularity. For this purpose, a subsidiary Pan-Net has been established, which builds production platforms on centralized virtual architecture aiming to increase the quality of user experience and long-term sustainable business. During 2016, HT has signed an umbrella agreement with DT on cooperation for the provision of Pan-Net services to HT.
 - Beginning of January 2017, Share Purchase Agreement signed for acquiring majority shareholding in Crnogorski Telekom AD Podgorica from Magyar Telekom, Nyrt
- Significant investment in network driven by integrated network strategy and regulatory request
 - HT enabled indoor population with LTE services coverage increased from 65.0% at the beginning of 2016 to 68.2% at the end of 2016, "outdoor" coverage increased up to 96.9%

- Maximal LTE throughput increased from 225 Mbps to 262.5 Mbps
 - Optical access network FTTx access is enabled for 295 thousand households at the end of 2016
 - HT enabled 54% of Croatian households with NGA speeds bringing Croatia closer to Digital Agenda targets
- New sources of revenue growing potential
- System solution is the strongest in the area of customized ICT solutions and IP communication recording annual revenue of HRK 677 million
 - Energy is establishing as a sustainable business recording annual revenue over HRK 100 million

Mobile telecommunications

Mobile customer base increased by 0.1%, to 2,234 thousand customers at the end of 2016 in comparison to 2015 mainly as a result of good response on attractive tariffs “Najbolje” launched in second half of 2015 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 increased by 3.6% to 1,159 thousand at the end of 2016 in comparison to 2015 as a result of overall push of successful and attractive tariffs and handsets as well as Mobile Net offers. Successful Bonbon campaigns resulting with great overall performance.

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 at the end of September.

At the 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 enter the Magenta1 world immediately if they used HT’s internet line in their household and at least one mobile HT line and became a part of whole new world of special, custom-made offers and benefits. Second wave Magenta1 campaign was launched in second quarter prior to European Football championship together with giveaway on social networks that invited everyone to support the Croatian national football team. At the end of September new campaign was introduced communicating all benefits and attractiveness of Magenta1 offer which was further enriched with Playstation 4. During the Christmas and New Year period Magenta1 offer was further improved with Playstation 4 PRO, the most powerful game console in the world at the moment, for HRK 0 and a game for HRK 1.

After launch of Magenta1 for business customers and offer made for very small enterprises in March 2016, at the end of November HT launched Magenta1 for its small and medium enterprises and corporate business customers and become the first on the local market with convergent seat based offer.

In August, new image campaign “Feel connected all over Europe. With the best network.” was launched in Croatia and other Deutsche Telekom subsidiaries with Andrea Bocelli. 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 headsets, drones and high quality HD TV’s.

In November HT launched new attractive mobile offer for elderly. Offer was accompanied by simplified handsets easy to use and digital pressure gauge.

Number of prepaid customers decreased by 3.4% to 1,075 thousand at the end of 2016 in comparison to 2015 due to overall decline of prepaid market and strong competition. On-going mobile number portability 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 during summer including 7 days of flat mobile internet at 4G speed.

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. Holiday promo offer was further enriched with 4G Huawei Y5 II smartphone for HRK 66 per month over a period of 12 months and “Zmajska” keyboard free of charge.

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. Bonbon customers are able to set their own combination of smartphones/gadgets with additional discounts available.

At the beginning of October, HT introduced new service Stream On, unique in the Croatian and European market. It allows users to watch entertainment content on a mobile phone without spending data from their plan. It is available as a part of “Najbolje” tariffs and Magenta1 and includes 10 hours of streaming of HBO GO and Pickbox programs.

HT customers who have activated the option Road assistance for Croatia or Europe can use the DriverAngel application free of charge. The application processes and analyses the user’s driving data and automatically calls the Oryx Group’s call center in case of an accident whose agents then contact the user or call emergency services.

In 2016, minutes of usage per average customer increased by 5.7% to 206 compared to the 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 1.1% to HRK 76 in 2016 when compared to 2015 as a result of better tariff mix and good results of tariffs “Najbolja”.

Fixed line

By the end of 2016, total fixed access mainlines of 924 thousand were by 4.6% lower than at the end of 2015, but decrease is slowing down (7.8% in 2015 in comparison to 2014). Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with proactive 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 month contract duration accompanied by new attractive fixed line tariffs.

Furthermore, HT launched new attractive offer for elderly, flat Internet and fixed voice minutes towards all fixed and mobile networks. Offer was further accompanied by tablet Lenovo Tab 3-850F

WIFI with special simplified applications and screen for easy use. Later on, another offer for elderly was introduced which includes MAXtv with additional packages and flat fixed voice minutes towards all fixed and mobile networks.

Fixed voice ARPU decreased by 6.8% to HRK 84 in 2016 when compared to 2015 as a result of mentioned general market trends.

Broadband

At the end of 2016 broadband customer base turned to growing and was higher by 2.4% in the comparison to 2015 reaching 618 thousand, due to Magenta1 and elderly proposition offers results.

At the same time broadband retail ARPU was 2.3% below 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.

2016 result was influenced by contribution of Smart office packages launched in fourth quarter 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 3.4% to 401 thousand at the end of 2016 in comparison to 2015 as a result of continuous service and program offer improvements which resulted with increased TV ARPU by 1.4% to HRK 82 in comparison to 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.

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 nine months for activations during promo period.

Wholesale

At the end of 2016 there were 148 thousands of active ULL lines, which was lower by 6.6% in comparison to the 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 134 thousands at the end of 2016, which was 28.0% above number of last year realization with driver being high increase of number of naked BSA lines.

Number of WLR lines at the end of 2016 decreased by 20.8% compared to previous year and reached 83 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 last year.

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

In 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 34.7% in volume comparing to the same period last year.

In the international wholesale market total capacity of sold IP increased by 38.6% 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 25.0% more voice originating minutes and 159.8% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 46.2% more roaming voice traffic in foreign countries and 413.8% more data traffic. During 2016, additional 4G (LTE) international roaming services with foreign partners were set up reaching 102 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 28.0% in 2016 compared to the 2015. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 15.0% and from HT mobile network users increased by 24.0%.

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, IT infrastructure and professional solutions segment.

Energy

Revenue from energy was higher by HRK 55 million or 116.0% compared to 2015 due to higher number of customers by 11.8%. Growth is present in both residential and business. 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 increased by HRK 51 million or 0.7% to HRK 6,970 million in 2016 in comparison to 2015. Increase is driven by higher mobile revenue (HRK 89 million or 3.3%), miscellaneous revenue (HRK 56 million or 101.1%) and system solution revenue (HRK 18 million or 2.7%) partially offset by lower fixed revenue (113 million or 3.3%).

Contribution of subsidiaries in Group revenue in 2016 amounted for Iskon HRK 386 million (2015: HRK 381 million) and for Combis HRK 468 million (2015: HRK 471 million).

Optima Telekom contribution to HT Group amounted to HRK 294 million in 2016 (2015: HRK 296 million) and consisted of HRK 441 million of Optima Telekom third party contribution (2015: HRK 425 million) that was presented in the whole amount under fixed revenue and HRK 147 million of inter-company relations that decreased mainly fixed wholesale revenue (2015: HRK 129 million).

Mobile revenue

Mobile revenue rose by HRK 89 million or 3.3% to HRK 2,821 million in 2016 in comparison to 2015. The growth resulted mainly from higher handset revenue, postpaid revenue and other mobile revenue, while prepaid revenue decreased.

From total deviation, HRK 88 million or 4.9% came from residential segment and the rest from business segment.

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 and usage increased as a result of continuous substitution trend of traditional voice and SMS services with data, higher 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 as a result of higher number of messages sent by 0.6%.

MTC revenue increased mainly as a result of deregulation of non EU international termination rate from April 2015. Rate was increased from 0.063 HRK/min to 1.73 HRK/min from April 2015 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 on the market.

Other mobile revenue increase was driven by higher visitors due to higher usage which came from excellent touristic season in Croatia, higher revenue from new services offered to customers within packages (e.g. road assistance) and higher effect of regulator fee introduced from July 1st 2014, due to higher number of customers partially offset by lower national roaming revenue since new contract conditions are valid from June 2015.

Prepaid revenue decrease was a result of lower retail revenue and MTC. The retail prepaid was lower due to lower customer base by 3.4% 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.

Fixed revenue

Fixed revenue dropped by HRK 113 million or 3.3% to HRK 3,360 million in 2016 in comparison to 2015. The fall resulted mainly from lower voice revenue and broadband revenue, but it was partially compensated by higher wholesale revenue, other fixed and TV revenue.

In 2016, fixed line voice retail revenue decreased in comparison to 2015 mainly as a result of continuous decline in the number of fixed mainlines by 4.6% 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 6.8%. ARPU decline is under influence of more low value residential customers using fixed voice services (mostly elderly population).

To slow down erosion of customer base, proactive 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 stabile 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 2.4%. 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, Ultra MAX on FTTH and introduced Magenta1 proposition offer.

Fixed wholesale revenue increased mainly due to higher infrastructure wholesale revenue driven by NBSA growth. Positive contribution from deregulation of international prices as of April 1st, 2015, additionally increased in March 2016, partially was offset by lower non EU termination traffic in 2016.

Other fixed revenue increase was driven by higher contribution of Optima consolidated segment and retail data revenue that was partially offset by lower revenue from dunning and interest revenue due to earlier collection of receivables.

TV revenue increased in comparison to the same period last year due to increased TV customer base by 3.4% and ARPU by 1.4% 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.

System Solutions

System solution revenue increased by HRK 18 million or 2.7% to HRK 677 million in 2016 when compared to 2015, continuing with yearly growth. Growth was achieved 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 56 million or 101.1% to HRK 112 million in 2016 in comparison to 2015.

Increase in miscellaneous revenue mainly comes from energy business due to higher customer base (11.8%) and constant efforts that are being undertaken to increase customer loyalty.

3.2 Operating expenses

Total consolidated operating expenses increased by HRK 67 million or 1.5% to HRK 4,392 million in 2016 mainly due to revenue growth. In 2016 HT Group ran OPEX savings project that delivered disciplined cost management and measures with positive impact on indirect expenses in 2016.

Operating expenses increase was a result of higher material expenses and other expenses, partially offset by lower employee benefits expenses, write down of assets and higher work performed by the Group and capitalized.

Excluding exceptional items relating to headcount reduction program of HRK 85 million (2015: HRK 91 million), operating expenses increased by HRK 73 million or 1.7% to HRK 4,307 million in 2016.

3.2.1 Material expenses

Material expenses increased by HRK 114 million or 5.8% to HRK 2,096 million in 2016 as a result of higher merchandise, material and energy expenses and services expenses.

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 realization in 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.

Services expenses increase was driven by higher telecommunication cost mainly due to higher mobile to mobile usage, hubbing traffic and roaming usage. Copyright fees increase was mainly result of higher number of TV customers by 3.4% and enriched content included in TV packages.

3.2.2 Employee benefits expenses

Total employee benefits expenses decreased by HRK 37 million or 3.6% to HRK 986 million in 2016 in comparison to the same period last year as a result of lower redundancy costs treated as exceptional items and lower personnel costs due to lower number of employees and new conditions from collective agreement per employee.

Number of FTE decreased by 315 from 4,742 in 2015 to 4,427 in 2016 mainly due Headcount Optimization program partially compensated by new employments.

3.2.3 Other expenses

Other expenses increased by HRK 31 million or 2.3% to HRK 1,373 million in 2016, mainly due to higher external employment costs, selling commissions and advertising, that were partially compensated by lower maintenance costs.

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 29 million or 43.7% to HRK 38 million in 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 increased by HRK 5 million or 0.3% to HRK 1,497 million in 2016 mainly due to higher amortization of terminal equipment for broadband services partially compensated by lower amortization of software licenses.

3.5 HT Group profitability

EBITDA before exceptional items increased by HRK 39 million or 1.4% to HRK 2,821 million in 2016. This increase was a result of higher other operating income and higher revenue, partially offset by higher operating expenses.

Other operating income increased by HRK 61 million or 62.8% to HRK 159 million in 2016 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, commitment write off related to obligation for antenna poles retirement and rental of real estates and telco infrastructure.

Optima Telekom contribution to 2016 Group EBITDA amounted to HRK 106 million (2015: HRK 106 million) and consisted of HRK 239 million of Optima Telekom third party contribution (2015: HRK 224 million) and HRK 132 million of inter-company relations (2015: HRK 118 million).

In comparison to 2015, consolidated net profit after non controlling interests increased by HRK 9 million or 1.0% to HRK 934 million in 2016. Net profit after non controlling interests increased due to higher EBITDA before exceptional items, higher contribution from non controlling interests, higher financial income and lower exceptional items, partially offset by higher financial expenses, higher taxation and higher depreciation and amortization.

Negative contribution of financial expenses by HRK 56 million mainly comes from exchange rate loss resulted from EUR exchange rate decline and interests coming from Optima Telekom. Financial income growth of HRK 10 million is mainly driven by higher income from disposal of non-current financial assets.

Optima Telekom contributed to net profit of HT Group with loss of HRK 1 million (2015: net profit of HRK 4 million).

3.6 Balance sheet

Total value of assets increased by HRK 375 million or 2.7% to HRK 14,455 million in comparison to end of year 2015.

Total issued capital and reserves increased from HRK 11,641 million at 31 December 2015 to HRK 12,046 million at 31 December 2016. This is mainly due to net profit for 2016 in the amount of HRK 934 million that is offset with dividend payment of HRK 491 million.

Total current liabilities decreased by HRK 43 million or 2.3% to HRK 1,847 million at 31 December 2016 mainly due to decrease in current portion of financial liabilities for capitalised content transmission contracts.

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 292 million or 12.3% due to contribution of working capital mainly due to higher payments for value added tax in comparison with 2015 when corporate income tax paid in advance was used for settlement of value added tax liabilities.

Net cash flow from investing activities decreased by HRK 1,185 million or 212.7% mainly due to significant investments in financial assets mostly bonds, commercial bills and REPO arrangements and higher capex paid in 2016 compared to 2015.

Net cash flow from financing activities slightly decreased by HRK 1 million or 0.1% mainly due to higher repayments for Electronic Communication Infrastructure contract partially offset by lower dividend paid.

3.8 Capital expenditure

in HRK million	2015	2016	% of change A16/A15	Q4 2015	Q4 2016	% of change 16/15
HT Group	1,474	1,608	9.1%	572	631	10.4%
Capex / Revenue ratio	21.3%	23.1%	1.8 p.p.	33.1%	35.3%	2.3 p.p.

Capital expenditure realization increased by HRK 135 million or 9.1% to HRK 1,608 million in comparison to 2015 mostly due to investments in realization of integrated network strategy (INS) and MPLS aggregation network, as well as fulfilling the regulatory requirements related to Electronic Communications Infrastructure.

During 2016, Integrated Network Strategy brought 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 2016 was enabled FTTx access for 295 thousand households that represent increase of 68% compared to end of year 2015. 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, over 200 thousand have access to fiber, thereby ultra-fast speeds over 100 Mbps. In total, NGA speeds are enabled for 54% Croatian households solely by HT efforts, bringing Croatia closer to targets of European digital agenda.

In mobile network, "indoor" 4G population coverage has increased from 65.0% to 68.2% and "outdoor" coverage increased from 93.1% up to 96.9% since the beginning of 2016. 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 2016. Rollout of 4G layer with download ultra-high speeds up to 262.5 Mbps has started.

Strong investment in access network within Integrated Network Strategy 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	2015	2016	% of change	Q4 2015	Q4 2016	% of change
Mobile revenue	1,782	1,870	4.9%	470	474	0.8%
Fixed revenue	1,958	1,840	-6.0%	474	455	-3.9%
System solutions	0	0	-	0	0	-
Miscellaneous	36	39	7.3%	8	10	31.3%
Revenue	3,776	3,749	-0.7%	952	939	-1.3%
Operating expenses	1,166	1,185	1.7%	315	311	-1.5%
Contribution to EBITDA before exceptional items	2,611	2,563	-1.8%	636	629	-1.2%

4.2 Business Segment

in HRK million	2015	2016	% of change	Q4 2015	Q4 2016	% of change
Mobile revenue	949	951	0.2%	212	229	8.1%
Fixed revenue	1,090	1,079	-1.0%	273	268	-1.7%
System solutions	659	677	2.7%	184	216	16.9%
Miscellaneous	20	73		6	24	
Revenue	2,718	2,780	2.3%	676	737	9.1%
Operating expenses	1,364	1,420	4.1%	359	422	17.7%
Contribution to EBITDA before exceptional items	1,353	1,360	0.5%	317	315	-0.7%

4.3 Network and support functions

in HRK million	2015	2016	% of change	Q4 2015	Q4 2016	% of change
Other operating income	96	157	64.2%	34	66	90.5%
Operating expenses	1,501	1,498	-0.2%	361	364	0.8%
Contribution to EBITDA before exceptional items	-1,406	-1,341	4.6%	-327	-298	8.7%

4.4. Segment Optima Telekom consolidated

in HRK million	2015	2016	% of change A16/A15	Q4 2015	Q4 2016	% of change A16/A15
Fixed revenue	425	441	3.8%	102	109	6.9%
Revenue	425	441	3.8%	102	109	6.9%
Other operating income	2	2	2.5%	1	1	23.2%
Operating expenses	203	204	0.8%	46	46	-0.9%
Contribution to EBITDA before exceptional items	224	239	6.4%	56	64	13.5%

5. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue increased by HRK 43 million or 0.7% to HRK 5,919 million in 2016 when compared to 2015. Increase was driven by higher mobile revenue coming from higher realization of mobile data and handset revenues, miscellaneous revenue coming from energy business and system solution revenue. This increase was partially offset with decrease in fixed revenue mostly resulting from lower voice driven by general market trend of fixed to mobile substitution and broadband revenues mostly due to lower ARPU driven by highly competitive market.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 26 million or 1.0% to HRK 2,596 million in 2016, mainly as a result of higher other operating income mostly driven by sales of fixed assets and higher revenue. This increase was partially compensated by higher operating expenses driven mainly by higher energy sales cost and merchandise costs related to higher energy and handsets revenues.

Net profit

Net profit increased by HRK 15 million or 1.7% to HRK 909 million in 2016. This increase was primarily a result of higher EBITDA before exceptional items, higher financial income, lower depreciation and amortization and lower exceptional items related to headcount restructuring program, 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 2016 made public, there were no material changes to the Group's risk profile in the period under review.

7. Group 2017 outlook

Revenue

Following a lengthy period of severe recession, Croatia's GDP growth forecast for 2016 as well as for 2017 is now around 3%. There are certain positive developments in both public debt and the budget deficit, while high levels of unemployment still persist.

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, alongside the contribution from growth areas within the Group, the Board expects 2017 revenue at around the 2016 level.

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 2017 of around 40%.

Investments

As previously announced, total Group investments for 2016 amounted to HRK 1,608 million, impacted by a rise in capitalised ECI (Electronic Communication Infrastructure) costs and investments in mobile and fixed broadband networks.

In 2017, the Group plans to continue significant investments in the network; however, total investments are expected to be moderately lower than in 2016.

8. HT Group Financial statements

8.1 Consolidated Income Statement

in HRK million (IFRS)	2015	2016	% of change	Q4 2015	Q4 2016	% of change
Mobile revenue	2,731	2,821	3.3%	682	703	3.1%
Fixed revenue	3,473	3,360	-3.3%	849	833	-1.9%
System solutions	659	677	2.7%	184	216	16.9%
Miscellaneous	56	112	101.1%	14	34	148.8%
Revenue	6,919	6,970	0.7%	1,729	1,785	3.2%
Other operating income	98	159	62.8%	35	67	89.1%
Total operating revenue	7,017	7,129	1.6%	1,764	1,852	5.0%
Operating expenses	4,326	4,392	1.5%	1,085	1,166	7.4%
Material expenses	1,982	2,096	5.8%	520	588	13.2%
Merchandise, material and energy exper	1,272	1,354	6.5%	355	407	14.6%
Services expenses	710	742	4.5%	164	181	10.1%
Employee benefits expenses	1,023	986	-3.6%	250	261	4.7%
Other expenses	1,342	1,373	2.3%	341	344	1.0%
Work performed by the Group and	-88	-101	-13.9%	-34	-37	-7.0%
Write down of assets	67	38	-43.7%	9	8	-11.3%
EBITDA	2,691	2,736	1.7%	679	686	1.1%
Depreciation and amortization	1,492	1,497	0.3%	403	459	13.8%
EBIT	1,199	1,239	3.4%	276	227	-17.6%
Financial income	53	63	18.4%	12	28	132.3%
Income/loss from investment in joint ventu	4	4	-3.4%	-7	0	97.0%
Financial expenses	88	144	63.3%	7	21	
Profit before taxes	1,168	1,162	-0.5%	273	234	-14.4%
Taxation	227	234	3.3%	50	50	0.8%
Net profit	941	928	-1.4%	224	184	-17.8%
Non controlling interests	16	-6	-134.1%	30	2	-92.5%
Net profit after non controlling	925	934	1.0%	194	182	-6.4%
Exceptional items ¹⁾	91	85	-7.1%	4	23	
EBITDA before exceptional items	2,783	2,821	1.4%	683	709	3.8%

¹⁾ Related to redundancy restructuring costs

8.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2015	At 31 Dec 2016	% of change <i>A16/A15</i>
Intangible assets	1,651	1,738	5.2%
Property, plant and equipment	5,616	5,619	0.1%
Non-current financial assets	1,033	1,352	30.9%
Receivables	98	121	23.2%
Deferred tax asset	46	59	28.7%
Total non-current assets	8,444	8,889	5.3%
Inventories	110	111	1.1%
Receivables	1,210	1,327	9.7%
Current financial assets	869	1,189	36.7%
Cash and cash equivalents	3,175	2,676	-15.7%
Prepayments and accrued income	272	262	-3.7%
Total current assets	5,636	5,566	-1.2%
TOTAL ASSETS	14,079	14,455	2.7%
Subscribed share capital	9,823	9,823	0.0%
Reserves	445	492	10.6%
Revaluation reserves	4	2	-39.3%
Retained earnings	268	633	135.7%
Net profit for the period	925	934	1.0%
Non controlling interests	177	163	-7.8%
Total issued capital and reserves	11,641	12,046	3.5%
Provisions	68	53	-21.7%
Non-current liabilities	435	472	8.6%
Deferred tax liability	45	35	-20.9%
Total non-current liabilities	548	561	2.4%
Current liabilities	1,783	1,741	-2.4%
Deferred income	103	89	-13.2%
Provisions for redundancy	4	17	
Total current liabilities	1,890	1,847	-2.3%
Total liabilities	2,438	2,408	-1.2%
TOTAL EQUITY AND LIABILITIES	14,079	14,455	2.7%

8.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	2015	2016	<i>% of change A16/A15</i>
Profit before tax	1,168	1,162	-0.5%
Depreciation and amortization	1,492	1,497	0.3%
Increase / decrease of current liabilities	13	-151	
Increase / decrease of current receivables	-5	-112	
Increase / decrease of inventories	10	-1	-111.7%
Other cash flow increases / decreases	-312	-321	-2.8%
Net cash inflow/outflow from operating activities	2,367	2,075	-12.3%
Proceeds from sale of non-current assets	25	56	124.7%
Proceeds from sale of non-current financial assets	2	639	
Interest received	18	18	2.0%
Dividend received	0	3	-
Other cash inflows from investing activities	2,411	1,941	-19.5%
Total increase of cash flow from investing activities	2,455	2,656	8.2%
Purchase of non-current assets	-990	-1,173	-18.5%
Purchase of non-current financial assets	-384	-1,019	-165.5%
Other cash outflows from investing activities	-1,639	-2,207	-34.7%
Total decrease of cash flow from investing activities	-3,013	-4,398	-46.0%
Net cash inflow/outflow from investing activities	-557	-1,742	
Total increase of cash flow from financing activities			
Repayment of loans and bonds	-43	-38	11.9%
Dividends paid	-573	-491	14.3%
Repayment of finance lease	-4	-10	-129.1%
Other cash outflows from financing activities	-211	-294	-39.1%
Total decrease in cash flow from financing activities	-832	-833	-0.1%
Net cash inflow/outflow from financing activities	-832	-833	-0.1%
Exchange gains/losses on cash and cash equivalents	5	2	-61.2%
Cash and cash equivalents at the beginning of period	2,192	3,175	44.8%
Net cash (outflow) / inflow	983	-498	-150.7%
Cash and cash equivalents at the end of period	3,175	2,676	-15.7%

8.4 Consolidated EBITDA reconciliation

in HRK million	2015	2016	% of <i>change</i>	Q4 2015	Q4 2016	% of <i>change</i>
Segment Result (Contribution to EBITDA)						
Residential Segment	2,611	2,563	-1.8%	636	629	-1.2%
Business Segment	1,353	1,360	0.5%	317	315	-0.7%
Network and Support Functions	-1,406	-1,341	4.6%	-327	-298	8.7%
Segment Optima consolidated	224	239	6.4%	56	64	13.5%
Total Contribution to EBITDA before exceptional items of the Segments	2,783	2,821	1.4%	683	709	3.8%
Exceptional items	91	85	-7.1%	4	23	
Total EBITDA	2,691	2,736	1.7%	679	686	1.1%

9. 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 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 Thürriegl, 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 (CTIO)

Zagreb, 23 February 2017

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