



Zagreb – 27 July 2017

Hrvatski Telekom Results for the six months ended 30 June 2017

Excellent Financial Results and Continuation of Major Infrastructure Investments

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the first six months of 2017.

Compared to H1 2016, total consolidated revenue has increased by 8.5% to HRK 3,691 million. Excluding Crnogorski Telekom's contribution, revenue deviates by HRK 16 million, i.e. 0.5%, compared to H1 2016. Hrvatski Telekom continues achieving growth in mobile, broadband and TV, wholesale, and energy business revenue, whilst recording a decrease in system solution revenue (different dynamic in projects realisation compared to H1 2016) and fixed voice revenue.

EBITDA before exceptional items has increased by 8.9% to HRK 1,458 million compared to H1 2016. EBITDA margin is up 0.2 p.p. compared to H1 2016, reaching a 39.5% level. Excluding Crnogorski Telekom's contribution, EBITDA before exceptional items has increased by 1.1% to HRK 1,353 million with EBITDA margin of 40%.

In relation to H1 2016, net profit is down by HRK 7 million, i.e. 1.7%, to HRK 410 million. Excluding Crnogorski Telekom's contribution, the realised net profit has decreased by 4.9% to HRK 397 million as a result of higher depreciation and amortisation driven by increased infrastructure investments and financial expenses, mainly related to foreign exchange differences.

Continuation of Investments in Network Infrastructure, Innovative Services, and Company Transformation

Compared to the same period 2016, H1 2017 Capex realisation has increased by 27.7%, including Crnogorski Telekom's contribution. Excluding the latter, Capex realisation has increased by 17.6% to HRK 759 million compared to H1 2016.

In fixed network, a total of 324 thousand Croatian households were provided with optical access by the end of H1 2017, which resulted in a 10% increase of optical access coverage compared to the end of 2016. Next generation access coverage is now available in 56% of Croatian households.

In mobile network, indoor 4G population coverage reached 75% at the end of H1 2017 (up by 7 p.p. compared to the end of 2016), whilst outdoor coverage reached 98% vs. 96,9% at the end of 2016. The 4G download speed increase from 225 Mbit/s to 262.5 Mbit/s reached population coverage of 45%, which is a 42 p.p. increase compared to the end of 2016.

Business IT Transformation project, the largest IT project in Croatia and one of the largest in the region, has been launched. It will last three years, and its value exceeds HRK 700 million. In addition to the restructuring of internal processes and the implementation of the most advanced IT systems, the project is supposed to raise the automation level and the digitalisation degree, thus ensuring the best customer experience.

Next generation TV platform has been implemented, providing the most advanced unique customer experience and the viewing of TV contents on any device, anywhere, and at any time. Service innovations have been introduced as well, allowing HT to be the first company in Croatia to enable eSIM and voice over super-fast LTE network. At the same time, the number of Magenta1 customers has been continuously rising and currently amounts to 77 thousand households, thus confirming the value of the concept of premium customer experience and benefits.

The integration of Crnogorski Telekom is under way. The new organisation was implemented in June, and measures for quick wins are being implemented in order to stabilise financial results in the short term and to prepare the company for long-term growth.

A four-year Share Buyback Programme was launched at the beginning of July. 2,500,000 shares are scheduled for acquisition, and the Programme has been allocated HRK 500 million.

As already announced, Hrvatski Telekom's rights of temporary management of Optima Telekom have been extended for an additional three-year period, that is until July 2021. The process of the approved merger of H1 Telekom d.d. into OT-Optima Telekom d.d. is under way.

Commenting on the business results in H1 2017, **Davor Tomašković, President of the Management Board of Hrvatski Telekom**, pointed out:

"I am satisfied with the results achieved in the first half of 2017. Excellent financial results allow us to invest and thus ensure HT's technological superiority and the development of innovative services to the benefit of our customers, but also of the Croatian economy as a whole. Our new TV platform (IPTV and OTT) sets a new standard in the world of television services. We have provided voice over super-fast LTE network and super-fast data transmission during phone calls. Stream ON is a unique service on the Croatian and European market that provides customers with the opportunity to view entertainment contents without using the data included in their tariff package. In the following months, we will continue investing in network and in the digital transformation of our Company as preconditions for the best customer experience and a premium position on the market. In Crnogorski Telekom, we have jointly defined and started the implementation of measures for quick wins on the market and for the stabilisation of financial results in the short period. We have also been working on structural changes to prepare the company for long-term growth and to strengthen its position on the regional market as well."

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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

+44 (0) 1452 555 566

Conference ID

58609481

A replay of the call will be available until Thursday, 3 August 2017 using the following details:

International Dial In

+44 (0)1452 550 000

Conference ID

58609481

A presentation covering results for the first six months of 2017 can be downloaded from the HT web site (www.t.ht.hr/eng/investors/).

1. Review

1.1 Introduction

HT Group's good performance continues in the first half of 2017

HT Group has successfully responded to market challenges and continued to lead the Croatian telecommunications market across all business segments in H1 2017. Differentiation of HT Group offers and positioning of brands contributed to strengthen position on the market. In addition, HT position strengthened on regional telco market after acquiring majority shareholding in Crnogorski Telekom AD Podgorica.

1.2 Economic background

Economic growth to continue in 2017

Croatian GDP grew by 2.5% on a yearly basis in Q1 2017. The largest positive contribution to the GDP's growth came from the increase of personal consumption as well as increasing exports of goods.¹

Coming closer to the peak of the tourist season, the usual seasonal decline in the unemployment rate is additionally supported by positive movements in the economy and continued shrinking of the labour force. The registered unemployment rate in May 2017 was 11.7% (down by 2.7pp in annual terms).¹

Net salary growth in April 2017, predominantly resulted from changes in the taxation of income, will be somewhat offset by the positive inflation rate. Reported average net income for April 2017 amounted to HRK 5,914 (up by 3.6pp in annual terms).¹ Average annual inflation rate in May 2017, calculated by Consumer Prices Index (CPI), was 1.1% higher compared with CPI in May 2016.¹

1.3 Market overview

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

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

The Croatian mobile market has been saturated with estimated mobile SIM penetration rate at 117.2% at the end of June 2017. The Company maintains leading market position with estimated mobile SIM market share of 46.2%.

¹ Source: Croatian Bureau of Statistics

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

All three mobile operators offer 4G services with favorable data packages and attractive gadgets that additionally encourage usage of data. As a result of additional mobile data and the increasing popularity of online messaging services, the total number of sent SMS messages continued to decrease on an annual basis by 9.4% in Q1 2017 and total mobile market minutes of use (MOU) grew by 3.6% in the same period.² On the other hand, due to the aforementioned reasons, total broadband traffic grew by 22.1% in Q1 2017 compared to the total broadband traffic in Q1 2016².

The negative trend in usage of fixed voice services resulted with a decline of originating voice minutes by 4.7% yoy in Q1 2017².

The Croatian fixed broadband market continued to grow at a yearly rate by 6.2% reaching more than 1,05 million fixed broadband connections in Q1 2017. The share of fixed high-speed broadband (>30Mbps) connections grew from 12% in Q4 2016 to 20% in Q1 2017. This is a result of higher investments in network infrastructure by fixed operators and the increased user demand for high-speed internet services.³

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

The Croatian Pay TV market continues to grow in Q1 2017, reaching 808 thousand customers (+4.8% on yearly level)⁴.

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 2017 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 142 thousand at the end of June 2017, which is increase of 15.6% compared to the same period last year. Growth rate decreased compared to previous period due to higher usage of operators' own infrastructure. 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 140 thousand of ULL access and 72 thousand of WLRs at the end of June 2017.

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

IT market

² Source: Croatian Post and Electronic Communications Agency's quarterly report for Q1/2017

³ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q1 2017

⁴ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q1 2017

According to IDC Adriatics⁵, the Croatian IT market grew by 4.3% in 2016. The strongest growth was in IT services (5.0%), followed by Software (4.4%) and Hardware market (3.8%).

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

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

Energy market

The market price in H1 2017 was influenced by extremely tough winter and historically low temperatures and production shortage throughout spring. That effect was passed through to bottom line as lower profit margin. At the very end of calendar year 2016 Croatian Government ceased a part of “Renewables Law” which sets suppliers free of obligation to buy green energy at premium price. In residential segment, certain improvements in regulatory environment are ahead, after which significant penetration will be possible. Unlike all other energy suppliers, who are running business as primary activity, HT is seeking to exploit synergy effect from telco-energy convergent proposition.

1.4 Regulatory environment

Public consultation regarding the draft amendments to the Electronic Communications Act

In the period from 23rd February to 10th March 2017 public consultation was held regarding the draft amendments to the Electronic Communications Act. Proposed amendments were primarily aimed to determine legal framework for the efficient direct effect in Croatia of the Regulation (EU) 2015/2020 on roaming and net neutrality. Draft amendments, inter alia, included two changes related to the rights of way: proposed change of presumptions related to the obtaining of the rights of way and the introduction of a term *manager* of real estate. These amendments are doubtful from the legal point of view, create space for legal uncertainties and therefore could not have been supported by HT. Besides the aforementioned, the need for the introduction of the right of operators to exchange necessary data on end customers was recognized. This amendment was supported by HT with aim to enable the estimation of end customer’s capability to pay future debts and to prevent abuse and fraud in provision of public communications services.

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

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

⁵ Source: IDC Adriatics, June 2017

1.5 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.

Crnogorski Telekom (CT)

As of 1 January 2017, Crnogorski Telekom has been consolidated and Group operating segments have been extended to five: Residential business unit, Business business unit, Network and support functions, Optima consolidated unit and Crnogorski Telekom unit.

In order to transparently present Crnogorski Telekom business development in H1 2017, besides “Segment Crnogorski Telekom consolidated”, we present also “Crnogorski Telekom stand-alone financial and non-financial highlights” to explain business development in H1 2017 versus H1 2016 when CT was not consolidated. The operational and financial highlights of HT Group without Crnogorski Telekom consolidation are presented under the “HT Croatia” section.

1.6 Summary of key financial indicators

HT Group (including Crnogorski Telekom), in HRK million

in HRK million

INCOME STATEMENT	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Revenue	3,402	3,691	8.5%	1,729	1,874	8.3%
Mobile	1,350	1,542	14.2%	696	797	14.6%
Fixed voice	488	477	-2.2%	241	236	-2.1%
Broadband & TV	652	719	10.3%	328	361	10.1%
Fixed wholesale	172	205	19.0%	87	102	17.2%
Other fixed	363	387	6.7%	186	191	2.8%
System solutions	330	292	-11.5%	165	151	-8.4%
Miscellaneous	46	69	48.7%	25	34	33.8%
EBITDA before exceptional items	1,339	1,458	8.9%	711	784	10.2%
Exceptional items	62	51	-16.6%	2	19	731.0%
EBITDA after exceptional items	1,277	1,406	10.1%	709	765	7.9%
EBIT (Operating profit)	586	582	-0.7%	367	353	-3.8%
Net profit after non controlling interests	417	410	-1.7%	282	262	-7.1%
EBITDA margin before exceptional items	39.3%	39.5%	0.2 p.p.	41.1%	41.8%	0.7 p.p.
EBITDA margin after exceptional items	37.5%	38.1%	0.6 p.p.	41.0%	40.8%	-0.2 p.p.
EBIT margin	17.2%	15.8%	-1.5 p.p.	21.2%	18.8%	-2.4 p.p.
Net profit margin	12.3%	11.1%	-1.2 p.p.	16.3%	14.0%	-2.3 p.p.

BALANCE SHEET	At 31 Dec 2016	At 30 Jun 2017	% of change A17/A16	At 31 Dec 2016	At 30 Jun 2017	% of change A17/A16
Total non current assets	8,889	10,059	13.2%	8,889	10,059	13.2%
Total current assets	5,566	4,740	-14.8%	5,566	4,740	-14.8%
TOTAL ASSETS	14,455	14,798	2.4%	14,455	14,798	2.4%
Total issued capital and reserves	12,046	12,149	0.9%	12,046	12,149	0.9%
Total non current liabilities	561	636	13.3%	561	636	13.3%
Total current liabilities	1,847	2,014	9.0%	1,847	2,014	9.0%
TOTAL EQUITY AND LIABILITIES	14,455	14,798	2.4%	14,455	14,798	2.4%

CASH FLOW	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Net cash flow from operating activities	934	1,230	31.7%	359	576	60.6%
Net cash flow from investing activities	-503	-429	14.7%	-504	195	138.6%
Net cash flow from financing activities	-664	-743	-11.9%	-596	-568	4.6%
Cash and cash equivalents at the end of period	2,916	2,770	-5.0%	-738	194	126.3%

CAPEX	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
CAPEX	645	824	27.7%	332	458	38.1%
CAPEX / Revenue ratio	19.0%	22.3%	3.4 p.p.	19.2%	24.4%	5.3 p.p.

NUMBER OF EMPLOYEES	At 30 Jun 2016	At 30 Jun 2017	% of change A17/A16	At 30 Jun 2016	At 30 Jun 2017	% of change A17/A16
Number of employees (FTEs)	4,443	4,993	12.4%	4,443	4,993	12.4%

RESIDENTIAL SEGMENT	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Revenue	1,853	1,857	0.2%	939	937	-0.2%
Contribution to EBITDA before exceptional items	1,264	1,256	-0.7%	640	644	0.6%
BUSINESS SEGMENT	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Revenue	1,328	1,317	-0.8%	677	675	-0.3%
Contribution to EBITDA before exceptional items	643	638	-0.7%	339	330	-2.6%
NETWORK & SUPPORT FUNCTIONS	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Contribution to EBITDA before exceptional items	-682	-655	4.0%	-327	-305	6.7%
SEGMENT OPTIMA CONSOLIDATED	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Revenue	221	211	-4.5%	113	104	-8.5%
Contribution to EBITDA before exceptional items	113	113	0.0%	60	56	-6.1%
SEGMENT CRNOGORSKI TELEKOM CONSOLIDATE	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Revenue	n/a	306	n/a	n/a	158	n/a
Contribution to EBITDA before exceptional items	n/a	105	n/a	n/a	59	n/a

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Six months to 30 Jun 2016	7.56	7.51	6.77	6.79
Six months to 30 Jun 2017	7.45	7.41	6.89	6.49

2. Business Review

HT Croatia, in HRK million

INCOME STATEMENT	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Revenue	3,402	3,387	-0.5%	1,729	1,717	-0.7%
Mobile	1,350	1,394	3.2%	696	719	3.3%
Fixed voice	488	435	-10.9%	241	216	-10.7%
Broadband & TV	652	659	1.1%	328	332	1.0%
Fixed wholesale	172	195	13.5%	87	97	11.6%
Other fixed	363	358	-1.3%	186	178	-4.6%
System solutions	330	276	-16.5%	165	142	-14.2%
Miscellaneous	46	69	48.7%	25	34	33.8%
EBITDA before exceptional items	1,339	1,353	1.1%	711	725	1.9%
Exceptional items	62	49	-21.3%	2	16	605.8%
EBITDA after exceptional items	1,277	1,305	2.2%	709	709	0.0%
EBIT (Operating profit)	586	562	-4.2%	367	338	-7.9%
Net profit after non controlling interests	417	397	-4.9%	282	252	-10.5%
EBITDA margin before exceptional items	39.3%	40.0%	0.6 p.p.	41.1%	42.2%	1.1 p.p.
EBITDA margin after exceptional items	37.5%	38.5%	1.0 p.p.	41.0%	41.3%	0.3 p.p.
EBIT margin	17.2%	16.6%	-0.6 p.p.	21.2%	19.7%	-1.5 p.p.
Net profit margin	12.3%	11.7%	-0.5 p.p.	16.3%	14.7%	-1.6 p.p.

Key operational data	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Mobile customers in 000						
Number of customers	2,246	2,237	-0.4%	2,246	2,237	-0.4%
- Prepaid	1,119	1,030	-7.9%	1,119	1,030	-7.9%
- Postpaid	1,128	1,206	7.0%	1,128	1,206	7.0%
Minutes of use (MOU) per average customer	205	214	4.2%	214	219	2.3%
Blended ARPU (monthly average for the period in HRK)	75	77	2.2%	77	79	3.1%
- Prepaid	41	42	2.6%	42	44	4.2%
- Postpaid	109	108	-0.6%	110	109	-0.4%
Blended non-voice ARPU (monthly average for the period in HRK)	37	40	6.3%	38	41	7.4%
SAC per gross add in HRK	103	131	27.8%	103	118	14.6%
Churn rate (%)	2.4	2.4	0.0 p.p.	2.2	2.2	0.0 p.p.
Penetration (%) ¹⁾	115	117	2.5 p.p.	115	117	2.3 p.p.
Market share of customers (%) ¹⁾	47	46	-0.7 p.p.	47	46	-0.7 p.p.
Smartphone customers (%) ²⁾	56	62	5.4 p.p.	56	62	5.4 p.p.
Smartphones sold (%) ³⁾	81	81	0.0 p.p.	80	82	2.0 p.p.

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

2) Number of customers using a smartphone handsets in total number of mobile customers

3) Number of smartphones sold in total number of handsets sold (postpaid only)

Key operational data	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	945	899	-4.8%	945	899	-4.8%
Fixed mainlines - wholesale (WLR - wholesale line rental)	96	72	-25.1%	96	72	-25.1%
ARPU voice per user (monthly average for the period in HRK) ²⁾	85	80	-6.5%	85	79	-6.4%
IP mainlines/customers in 000						
Broadband access lines - retail ³⁾	607	624	2.9%	607	624	2.9%
Broadband access lines - wholesale ⁴⁾	123	142	15.6%	123	142	15.6%
TV customers	391	411	5.2%	391	411	5.2%
Broadband retail ARPU (monthly average for the period in HRK)	122	118	-3.1%	123	118	-3.5%
TV ARPU (monthly average for the period in HRK)	82	81	-0.5%	82	81	-0.9%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	153	140	-9.1%	153	140	-9.1%

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

HT Group highlights:

- Significant efforts taken to maintain position in the market
 - HT managed to keep the leading mobile market share with estimated portion of 46.2%
 - HT's Magenta1 convergent offer achieved 77 thousand of consumer households while in business area there are 7 thousand of Magenta1 active accounts that position HT as One-Stop-Shop on market
 - HT introduced innovative services VOLTE – voice calls over superfast LTE network and eSIM – the further standard for mobile devices
- The main financial KPIs growing under influence of Crnogorski Telekom
 - Revenue is above H1 2016 by HRK 289 million or 8.5%. Excluding CT contribution of HRK 305 million, revenue slightly below by HRK 16 million or 0.5%.
 - EBITDA is above H1 2016 by HRK 119 million or 8.9%. Excluding CT contribution of HRK 104 million, EBITDA is above by HRK 15 million or 1.1%.
 - Capex realization is above H1 2016 by HRK 178 million or 27.7%. Excluding CT contribution of HRK 65 million, Capex is above by HRK 113 million or 17.6%.
- Transformation continued in H1 2017

- Transformation program Horizont 2017 is developing according to HT Strategy 2020 directions aiming to become regional telco and digital market leader
 - IT transformation has been started and should in the following years result with restructuring of business processes and IT structure as a relevant assumption of sustainable customer oriented company
 - Integration of Crnogorski Telekom is ongoing. New organization is implemented and quick wins are in realization. Full time integration resources are appointed for the project and senior leadership in both organizations is committed to success of the integration.
 - Share Buyback Program has started on 3 July 2017 and it will last until 20 April 2021, in accordance with the decision of the General Assembly of 21 April 2016. The maximum of 2,500,000 shares is scheduled for acquisition, while the maximum amount that is assigned to the Program amounts to HRK 500 million. Acquired own shares in the Program are to be withdrawn without reducing the issued share capital by which the portion of the remaining shares will be increased.
 - Croatian Competition Agency prolonged the temporary management rights of the company Optima Telekom Inc. for Hrvatski Telekom for an additional three-year period, that is, until 10 July 2021. The Agency has also approved the concentration pursuant to the Merger Agreement of the company H1 TELEKOM Inc. into the company OT – OPTIMA TELEKOM Inc. Process of the merger of H1 into Optima has been started.
- Strong financial performance is ensuring significant investment in network infrastructure
- HT was the first in DT Group to implement Next TV platform on the technology following modern trends of content consumption
 - HT was the first in Croatia to introduce voice calls over the superfast LTE network in May. Service has been developed within PAN IP project and brings numerous benefits to the customers.
 - Implementation of 4G download speed increase from 225 Mbps to 262.5 Mbps reached population coverage of 45% in H1 2017 (increase of 42 p.p. from the end of 2016)
 - "Indoor" 4G population coverage increased up to 75%, "Outdoor" coverage increased to 98%
 - Activities continued for achieving Digital Agenda 2020 targets, progress achieved in increasing coverage of NGA access that is now available for 56% of Croatian households
 - FTTx access is enabled for 324 thousand households
 - In Montenegro country wide BB coverage further expanded; VDSL coverage reached 31% of households, FTTH reached 32%. Number of fiber users has increased by 24% compared to the same period in previous year.

Mobile telecommunications

Mobile customer base slightly decreased by 0.4%, to 2,237 thousand customers at the end of H1 2017 in comparison to H1 2016 mainly as a result of prepaid underperformance.

Number of postpaid customers was higher by 7.0% than at the end of H1 2016 as a result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns resulting with great overall performance.

HT's unique concept of premium customer experience and benefits called Magenta1 offers HT private and business customers numerous free benefits such as TV packages, fastest internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive smartphones and gadgets. Magenta1 Christmas offer continued through beginning of 1Q 2017 and was further improved with the most powerful game console in the world at the moment - Playstation 4 PRO, and other attractive handsets for special prices.

In April HT launched first tariff intended for young people that enables unlimited streaming with the biggest coverage. The greatest innovation is unlimited Youtube, Netflix, HBO GO and Pickbox via the Stream On service without the usage of GB included in the tariff plan. Offer includes a broad range of best innovative gadgets and 24/7 customer support on social networks. Furthermore, a prize competition thorough dozivivise.hr has been launched in which HT takes the most creative ones to an unforgettable journey to Dubai and Abu Dhabi, exciting sailing trip and other adventures during the whole year. Also, for all HT existing and new customers was further improved the most popular mobile tariff "Imam sve" by increasing included data in tariff to 5 GB (+1extra GB in web shop for new customers). To offer customers more financing options HT introduced handset sales model on 36 monthly installments.

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

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

End of March HT launched presales of Samsung Galaxy S8 and S8+, the new generation of Samsung's most popular smartphone, through web shop. Furthermore, new Samsung A series smartphones, A3 and A5, started selling in HT in February.

Number of prepaid customers was 7.9% lower than in H1 2016 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.

In new media campaign Simpa introduced MaxTvToGo value add service with the best sport and movies content, starting from monthly fee of HRK 25 without contract obligation. The users who activate this option during promo period by August 31st also get HBO premium package with top quality series and movies at no extra cost. In addition to the existing weekly and monthly "Zmajaska" options, Simpa now offers its customers a new monthly offer "Zmajozilla". As of mid-February, Simpa "Zmajaska" option is even bigger and more flexible; it includes 5,000 MB/MIN/SMS which users can use as they want for HRK 69 per month. Offer was further enriched with 4G speed up to 75 Mbps, option which allows you to transfer MB/MIN/SMS from "Zmajaska" option to other Simpa customer account, and "Zmajaska" keyboard free of charge.

Bonbon continued with bringing its customers additional value, this time through popular Deezer option. Promo offer presented in media campaign includes 2 months of enjoying in favorite music for free for all activations until end of year. Bonbon agents available 0-24h, "Rollover" which enables its customers to transfer unused units (MB, MIN, SMS) into next month when package automatically reactivates and packages which include 6GB of Internet with 4G speed remain one of the main

benefits that Bonbon gives to their customers. Furthermore, all customers are able to set their own combination of smartphones/gadgets with additional discounts and can also set their spending limit according to their possibilities.

Stream On service, unique in the Croatian and European market, allows users to watch entertainment content on a mobile phone without spending data from their plan. It is available as a part of “Najbolje” tariffs and Magenta1 at the price of HRK 9 for the first monthly activation and includes 10 hours of streaming of HBO GO and Pickbox programs. Otherwise the price will be HRK 49 per month.

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

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

Minutes of usage per average customer in H1 2017 increased by 4.2% compared to H1 2016 and blended ARPU increased by 2.2% as a result of postpaid segment overperformance.

Fixed line

By the end of H1 2017, total fixed access mainlines of 899 thousand were by 4.8% lower than at the end of H1 2016. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro- and reactive churn prevention offers and activities.

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

HT continued with attractive offer for elderly, flat Internet and fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month. Offer was further accompanied by tablet Lenovo Tab 3-850F WIFI for only HRK 99 with special simplified applications and screen for easy use. Another offer for elderly introduced in 2016 continued through 2017 which includes MAXtv with additional packages and flat fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month.

Fixed voice ARPA decreased by 6.5% compared to H1 2016 as a result of mentioned general market trends.

Broadband

At the end of H1 2017 broadband customer base was higher by 2.9% in the comparison to the end of H1 2016 reaching 624 thousand, due to Magenta1 and elderly proposition offers results.

At the same time broadband retail ARPA was 3.1% below H1 2016 at the level of HRK 118 due to stronger competition and aggressive offers in the market.

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

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

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

TV

TV customer base, showing 5.2% increase from H1 2016, is at the level of 411 thousand as a result of continuous service and program offer improvements through premium content (additional program packages, video on demand etc.) and enriched exclusive TV content. TV ARPU is at level of HRK 81 and it is slightly lower in comparison to H1 2016 by 0.5%.

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

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

Wholesale

At the end of H1 2017 there were 140 thousand of active ULL lines, which was lower by 9.1% in comparison to the end of H1 2016. Number of ULL lines decreased due to focus of alternative operators to broadband services.

Broadband wholesale access lines (BSA and naked BSA lines) reached 142 thousand at the end of H1 2017, which was 15.6% above number of last year realization with driver being increase of number of naked BSA lines. Compared to previous period growth rate decreased due to higher usage of operator's own infrastructure.

Number of WLR lines at the end of H1 2017 decreased by 25.1% compared to previous year and reached 72 thousand as a result of declining voice market and migration to broadband services.

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

In 2017 successful sales continued in spite of competitive domestic wholesale market of data and IP services. Especially successful was sale of IP upstream services with growth of 11.9% in volume comparing to the same period last year.

In the international wholesale market total capacity of sold IP increased by 16.5% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2017, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 46.9% more voice originating minutes and 290.7% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 69.9% more roaming voice traffic in foreign countries and 151.2% more data traffic. During H1 2017, additional 4G (LTE) international roaming services with foreign partners were set up reaching 127 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 17.4% in first half of 2017 compared to the same period last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 12.2% and from HT mobile network users increased by 41.8%.

System solutions

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

Second flight of Magenta1 Business Communication campaign goal was to further position HT as one-stop-shop for business customers. Special communication focus was on new Fiscalisation proposition.

Energy

Revenues from energy were higher by HRK 23 million or 56.9% when compared to H1 2016 due to higher number of business customers by 25.0% in spite of lower base of residential customers by 13.6%. Strong growth is present in Business segment in customer base as well as in revenue, with further focus on Telco-energy convergent proposition to increase customer loyalty and position HT as one-stop-shop for business customers.

3. HT Group financial performance

3.1 Revenue

Total consolidated revenue increased by HRK 289 million or 8.5% to HRK 3,691 million in H1 2017 in comparison to H1 2016. Crnogorski Telekom contributed with HRK 305 million. Excluding Crnogorski Telekom, revenue is slightly below H1 2016 by HRK 16 million or 0.5%. Slight decrease is driven by seasonalisation of projects in system solution revenue (HRK 55 million or 16.5%) and fixed revenue (HRK 27 million or 1.6%), partially offset by higher mobile revenue (HRK 44 million or 3.2%) and miscellaneous revenue (HRK 23 million or 48.7%).

Optima Telekom contribution to HT Group was below by HRK 10 million in comparison to H1 2016 and amounted to HRK 140 million in H1 2017. Contribution consisted of HRK 211 million of Optima Telekom third party contribution (H1 2016: HRK 221 million) that was presented in the whole amount under fixed other revenue and HRK 71 million of inter-company relations that decreased mainly fixed wholesale revenue (H1 2016: HRK 71 million).

Contribution of subsidiaries in Group revenue in H1 2017 amounted for Iskon HRK 193 million (H1 2016: HRK 186 million) and for Combis HRK 170 million (H1 2016: HRK 237 million).

Mobile revenue

Mobile revenue rose by HRK 191 million or 14.2% to HRK 1,542 million in H1 2017 in comparison to H1 2016. Crnogorski Telekom contributed with HRK 148 million. Excluding Crnogorski Telekom, mobile revenue is above H1 2016 by HRK 44 million or 3.2%. The growth resulted mainly from higher postpaid revenue, handset revenue and visitor revenue, while other mobile revenue decreased as well as prepaid revenue.

Postpaid revenue increased primarily due to higher number of customers by 7.0%, under influence of overall push of successful and attractive tariffs such as Magenta1 and Young as well as successful Bonbon campaign resulting with great overall performance. Postpaid ARPU is slightly below H1 2016 by 0.6% influenced by increased share of M2M subscribers and roaming regulation as well as more free minutes included in bundle offers.

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.

Visitor revenue increased due to higher usage driven by more data traffic than in H1 2016 by 290.7%.

Other mobile revenue decreased mostly due to lower termination of unactivated vouchers.

Prepaid revenue decrease was result of decline in customer base by 7.9% compared to H1 2016. Decrease was driven by overall prepaid market decline and strong competition. Continuous efforts are taken in Simpa and Bonbon to mitigate on-going decline. Market recovery initiatives resulted with higher prepaid ARPU by 2.6% in comparison to H1 2016.

Fixed revenue

Fixed revenue increased by HRK 113 million or 6.8% to HRK 1,788 million in H1 2017 in comparison to H1 2016. Crnogorski Telekom contributed with HRK 141 million. Excluding Crnogorski Telekom, fixed revenue decreased by HRK 27 million or 1.6%.

The fall resulted mainly from lower voice revenue and other fixed revenue but it was partially compensated by higher wholesale revenue and TV revenue.

In H1 2017, fixed line voice retail revenue decreased in comparison to H1 2016 mainly as a result of continuous decline in the number of revenue producing fixed mainlines (4.8%) 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 6.5%. ARPU decline is under influence of more low value residential customers using fixed voice services (mostly elderly population).

Other fixed revenue decrease comes from negative contribution of Optima Telekom but partially offset by higher realization of online consumer services.

Fixed wholesale revenue increased mainly due to network infrastructure revenue driven by higher quantity of NBSA by 36.6% and new regulated price models for NBSA in comparison to H1 2016. Positive contribution from ULL price that increased from HRK 43.61 to HRK 49.53 in amount of HRK 1 million is offset by lower realization of ULL quantities by 9.1%.

TV revenue increased in comparison to the same period last year as a result of higher customer base by 5.2% despite of slightly lower TV ARPU by 0.5% as consequence of push of TV through Magenta1, new Elderly offer and successful retention activities.

Broadband revenue was in line in comparison to the H1 2016 as a result of higher retail broadband customer base by 2.9% that compensated influence of lower broadband retail ARPU by 3.1%. ARPU decline is a result of stronger competition and aggressive offers in the market. To stabilize revenues and ensure base for revenue growth, HT continues with push of Magenta1 proposition offer, MAX2/MAX3 packages and Ultra MAX on FTTH.

System Solutions

System solution revenue decreased by HRK 38 million or 11.5% to HRK 292 million in H1 2017 in comparison to H1 2016. Crnogorski Telekom contributed with HRK 16 million. Excluding Crnogorski Telekom, system solution revenue is below H1 2016 by HRK 55 million or 16.5% due to different dynamic in projects realization.

Miscellaneous revenue

Increase in miscellaneous revenue mainly comes from energy business due to higher number of business customers (25.0%) that generate large consumption of energy.

Other operating income

Other operating income decreased by HRK 9 million or 12.7% compared to H1 2016. Crnogorski Telekom contributed with HRK 1 million. Excluding Crnogorski Telekom, other operating income decreased by HRK 10 million or 14.8%. Decrease is driven by absence of commitment write off related to obligation for antenna poles retirement realized in H1 2016 and lower level of fixed assets sale. Sale of lands in Rijeka and Požega in H1 2016, slightly offset by sale of properties in Zagreb in H1 2017. Decline is partially offset by higher income from penalties and discounts from prior years.

3.2 Operating expenses

Total consolidated operating expenses increased by HRK 151 million or 6.9% to HRK 2,345 million in H1 2017. Crnogorski Telekom contributed with HRK 204 million. Excluding Crnogorski Telekom, operating expenses decreased by HRK 54 million or 2.5%.

When excluding Crnogorski Telekom, decrease was a result of lower employee benefits expenses, lower material expenses, partially neutralized with higher write down of assets and other expenses.

Excluding Crnogorski Telekom and costs that are treated as exceptional items, mainly driven by restructuring and redundancy costs, operating expenses decreased by HRK 41 million or 1.9%.

Material expenses

Material expenses increased to HRK 1,077 million in H1 2017 as a result of higher merchandise, material and energy expenses and services expenses. Crnogorski Telekom contributed with HRK 80 million. Excluding Crnogorski Telekom, material expenses decreased by HRK 27 million or 2.6% as a result of lower services expenses and lower merchandise, material and energy expenses.

Excluding Crnogorski Telekom, lower services expenses are under influence of lower copyright fees and other services purchased.

Lower copyright fees were caused by higher share of capitalized content rights contracts in spite of higher TV customer base 5.2%.

Lower other services purchased resulted from lower production costs for TV content.

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

Merchandise costs decrease was mainly driven by lower system solution merchandise that is in line with system solution revenue development, partially compensated with higher mobile merchandise and higher fixed merchandise compared to H1 2016.

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

Increase of energy sales costs is influenced by higher business customer base and higher usage as well as new regulation. At the very end of calendar year 2016 Croatian Government ceased a part of "Renewables Law" which sets suppliers free of obligation to buy green energy at premium price which is manifested with additional costs.

Employee benefits expenses

Total employee benefits expenses increased by HRK 11 million or 2.2% in H1 2017 as a result higher personnel costs offset by lower redundancy costs. Excluding Crnogorski Telekom in amount of HRK

51 million, total employee benefits decreased by HRK 40 million or 8.0% due to lower redundancy costs and lower personnel costs.

Total number of FTE amounts to 4,993, with Crnogorski Telekom contribution of 530 FTEs. Excluding Crnogorski Telekom, number of FTE increased from 4,443 in H1 2016 to 4,463 in H1 2017.

Other expenses

Other expenses increased by HRK 76 million or 11.0% to HRK 763 million in H1 2017. Crnogorski Telekom contributed with HRK 71 million. Excluding Crnogorski Telekom, other expenses are above H1 2016 by HRK 5 million or 0.7% mainly driven by higher external employment and higher selling commissions, partially offset by lower maintenance costs and lower license costs.

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

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

Savings in maintenance are under influence of renegotiation of service level agreements with main vendors.

Lower license costs coming from optimization in license management.

Write down of assets

The assets write down increased by HRK 13 million or 54.7% to HRK 37 million in H1 2017. Crnogorski Telekom contributed with HRK 4 million. Excluding Crnogorski Telekom, assets write down increased by HRK 9 million or 36.1% mainly due to higher value adjustment of receivables.

Depreciation and amortization

Depreciation and amortization increased to HRK 825 million by HRK 134 million or 19.4% compared to H1 2016. Crnogorski Telekom contributed with HRK 81 million. Excluding Crnogorski Telekom, depreciation and amortization increased by HRK 53 million or 7.6% compared to H1 2016 driven by electronic communication infrastructure assets.

3.3 HT Group profitability

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 119 million or 8.9% to HRK 1,458 million in H1 2017. Crnogorski Telekom contributed with HRK 104 million. Excluding Crnogorski Telekom, EBITDA before exceptional items increased by HRK 15 million or 1.1%. Increase is a result of lower operating expenses excluding exceptional items mainly under influence of lower employee benefits expenses,

that have compensated lower other operating income and lower revenue under influence of project seasonalization in system solution.

Optima Telekom contribution to H1 2017 Group EBITDA was in line with H1 2016. It amounted to HRK 48 million (H1 2016: HRK 49 million) and consisted of HRK 113 million of Optima Telekom third party contribution (H1 2016: HRK 113 million) and HRK 65 million of inter-company relations (H1 2016: HRK 65 million).

Net profit after non controlling interests

In comparison to H1 2016, consolidated net profit after non controlling interests decreased by HRK 7 million or 1.7% to HRK 410 million in H1 2017. Crnogorski Telekom contributed with HRK 13 million. Excluding Crnogorski Telekom, net profit after non controlling interest decreased by HRK 20 million or 4.9%.

Net profit after non controlling interest decreased as a result of higher depreciation and amortization, higher financial expenses driven by content capitalization, partially compensated with lower taxation, higher EBITDA contribution and lower costs that are treated as exceptional items mainly related to restructuring and redundancy costs.

Optima Telekom contributed to HT Group net profit by loss of HRK 1 million (H1 2016: loss of HRK 1 million).

3.4 Balance sheet

In comparison to last year end, total asset value increased by 2.4% primarily driven by consolidation of Crnogorski Telekom. Excluding consolidation of Crnogorski Telekom in 2017, total asset value remained stable.

Compared to 31 December 2016, total non-current asset increased by HRK 1,170 million or 13.2% as at 30 June 2017 under influence of Crnogorski Telekom consolidation. Total current asset decreased by HRK 826 million or 14.8% mainly as a result of payment made for Crnogorski Telekom acquisition.

Total issued capital and reserves increased from HRK 12,046 million at 31 December 2016 to HRK 12,149 million at 30 June 2017 mainly driven by Crnogorski Telekom consolidation, realized net profit for H1 2017 in the amount of HRK 410 million, partially offset with dividend payment amounting to HRK 491 million.

Total non-current liabilities increased by HRK 75 million or 13.3% mainly due to consolidation of Crnogorski Telekom coming from their deferred tax liability. Excluding Crnogorski Telekom, non-current liabilities increased by 6.1% mostly due to higher liabilities related to retransmission rights.

Total current liabilities increased by HRK 167 million to HRK 2,014 million at 30 June 2017 driven by trade payables in Crnogorski Telekom. Excluding Crnogorski Telekom, current liabilities decreased by 6.5% mainly due to settlement of higher payables for capital expenditures and international traffic at year end and lower employee related provisions due to payment of bonuses relating to 2016.

3.5 Cash flow

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

Net cash flow from operating activities increased by HRK 296 million or 31.7% driven by consolidation of Crnogorski Telekom that contributed with HRK 108 million. Excluding Crnogorski Telekom, cash flow increased by HRK 187 million mainly due to better working capital management in H1 2017.

Net cash flow from investing activities increased by HRK 74 million or 14.7%. Excluding Crnogorski Telekom, cash flow from investing activities increased by HRK 115 million mainly due to REPO arrangements proceeds in H1 2017.

Net cash flow from financing activities decreased by HRK 79 million or 11.9%. Excluding Crnogorski Telekom, cash flow decreased by HRK 22 million mainly due early repayment of financial lease.

3.6 HT Group capital expenditure

HT Group

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
CAPEX	645	824	27.7%	332	458	38.1%
CAPEX / Revenue ratio	19.0%	22.3%	3.4 p.p.	19.2%	24.4%	5.3 p.p.

Crnogorski Telekom

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Crnogorski Telekom	0	65	-	0	44	-

Capital expenditure realization in H1 2017 increased by HRK 178 million or 27.7% including contribution of Crnogorski Telekom in amount of HRK 65 million compared to the H1 2016. Without this effect, capital expenditure realization in H1 2017 increased by HRK 113 million or 17.6% to HRK 759 million in comparison to H1 2016.

HT as first in DT Group implemented new Next TV platform and enabled preconditions for the best IPTV experience in Croatia. Next TV is based on technology that follows modern trends of TV content consumption on any device, anywhere and anytime. Premium quality of various content and numerous advanced functionalities are increasing customer experience.

In May, HT enabled voice calls over the superfast LTE network (previously over 2G and 3G networks). Voice service over HT LTE network (VoLTE) provides the customers with clear and natural sound. Call set-up times standing is shortened, superfast data transmission during telephoning is enabled and

battery life of mobile devices is extended. The first VoLTE-enabled devices in Hrvatski Telekom is Samsung Galaxy S7 with Samsung certificate issued, whilst also other Samsung and iPhone devices will soon be available. VoXX is the first step in technical convergence of fixed and mobile networks as a prerequisite for ultimate convergence of services (first step to one service, the same impression as a fixed or mobile connection).

Due to new regulatory requests (Roam like@home) and traffic increase based on positive influence of Stream on service, significant traffic and capacity increase in mobile network is achieved.

In mobile network, "indoor" 4G population coverage has increased in H1 2017 to 75% (increase of 7 p.p.) and "outdoor" coverage reached 98% (increase of 1 p.p.) since the beginning of 2017. In H1 2017, 493 LTE services implemented. Implementation of 4G speed increase from 225 Mbps to 262.5 Mbps download speeds continued to population coverage of 45%.

Activities are continued for achieving Digital Agenda 2020 targets. Additional progress achieved in throughput on NGA access which is now available for 56% of Croatian households with speed >30Mbps out of which 18% has available speed >100Mbps. FTTx (optical access network) is available for 324 thousand households.

IT continued with transformation towards digital society, which includes redesign for fixed network customers, STB's replacement in order to ensure new experience of television to MaxTV customers.

4. Crnogorski Telekom stand-alone financial and non-financial highlights

Note: H1 2016 is not consolidated into HT Group accounts. H1 2016 Data is presented for illustrative purposes to indicate key trends in Crnogorski Telekom performance versus H1 2017. "Segment Crnogorski Telekom consolidated" is presented later in the document. EUR is the official reporting currency Crnogorski Telekom.

in EUR million						
Key financial data	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Mobile revenue	20	20	-1.4%	11	11	0.1%
Fixed revenue	22	19	-14.4%	11	9	-14.9%
System solutions	2	2	6.8%	1	1	2.7%
Revenue	45	41	-7.5%	23	21	-7.0%
EBITDA before EI	15	14	-6.3%	8	8	4.0%
Capex	5	9	64.4%	4	6	59.6%

Key operational data	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Mobile customers in 000	345	354	2.7%	345	354	2.7%
- Prepaid	170	157	-7.7%	170	157	-7.7%
- Postpaid	174	197	12.8%	174	197	12.8%
Fixed mainlines - retail in 000	143	131	-8.6%	143	131	-8.6%
Broadband access lines - retail in 000	75	71	-5.3%	75	71	-5.3%
TV customers in 000	62	58	-6.4%	62	58	-6.4%

Market pressure resulted with lower revenue realization by EUR 3 million or 7.5% in H1 2017 in comparison to H1 2016.

Mobile revenues declined compared to H1 2016 by EUR 0.3 million or 1.4%. Prepaid segment still represents challenge, and has declined compared to H1 2016 by EUR 0.7 million or 12.8%. Main drivers of prepaid decline are lower customer base by 7.7% as a result of main competitors focus on prepaid segment and regulatory pressure. Crnogorski Telekom has set its focus on postpaid segment and keeps leading position with share of 39.8% on postpaid market in Montenegro. Postpaid revenue increased by EUR 0.1 million or 1.1% compared to H1 2016 driven by customer base growth of 12.8% supported with Magenta1 and with new standalone, more competitive and data oriented portfolio.

Crnogorski Telekom has market share leadership in fixed voice with estimated market share of 88.9% and broadband with estimated market share of 54.7% in Montenegrin market and fixed revenues declined compared to H1 2016 by EUR 3.2 million or 14.4%. Fixed voice decline continued (EUR 1.8 million or 24.4%) due to regulatory pressure, ongoing fixed to mobile substitution, and lower customer base by 8.6%. Broadband revenue below H1 2016 by EUR 0.9 million or 17.0%, while TV below by EUR 0.2 million or 5.1%, both driven by lower customer base while Broadband, in addition, was also affected by regulation. Churn prevention efforts are taken with Magenta1 refresh, VDSL and Extra Duo offers in core telco retail.

System solution revenue has positive contribution to Crnogorski Telekom revenue in H1 2017 by EUR 0.1 million or 6.8% in comparison to H1 2016.

EBITDA before exceptional items decreased by EUR 1 million or 6.3% compared to H1 2016, following revenue development which was partially offset by lower material costs due to lower copyright fees as a result of realized TV content capitalization in H2 2016 and H1 2017.

EBITDA margin before exceptional items in H1 2017 amounts to 34.0% and is above H1 2016 by 0.4 p.p. (H1 2016: 33.6%).

Crnogorski Telekom Capex increased by EUR 3.4 million or 64.4% as a result capitalization of TV content contracts in H1 2017.

5. Overview of segment profitability

As of January 2017, Crnogorski Telekom was consolidated and respectively Group operating segments extended to Residential business unit, Business business unit, Network and support functions, Optima consolidated unit and Crnogorski Telekom 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 Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in whole amount on Miscellaneous revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited. So only financial consolidation is performed, while Optima Telekom non financial KPIs are not included into Group achievements.

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

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

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

5.1 Residential Segment

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Mobile revenue	911	946	3.8%	467	483	3.5%
Fixed revenue	921	892	-3.2%	462	446	-3.4%
Miscellaneous	20	19	-4.8%	10	8	-22.4%
Revenue	1,853	1,857	0.2%	939	937	-0.2%
Operating expenses	589	601	2.1%	299	293	-1.9%
Contribution to EBITDA before exceptional items	1,264	1,256	-0.7%	640	644	0.6%

5.2 Business Segment

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Mobile revenue	439	449	2.2%	229	236	3.0%
Fixed revenue	532	543	2.0%	268	272	1.3%
System solution	330	276	-16.6%	165	142	-14.3%
Miscellaneous	26	50	89.8%	15	26	73.0%
Revenue	1,328	1,317	-0.8%	677	675	-0.3%
Operating expenses	685	679	-0.9%	338	345	2.0%
Contribution to EBITDA before exceptional items	643	638	-0.7%	339	330	-2.6%

5.3 Network and support functions

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Other operating income	69	58	-15.7%	27	36	33.5%
Operating expenses	751	712	-5.1%	354	341	-3.7%
Contribution to EBITDA before exceptional items	-682	-655	4.0%	-327	-305	6.7%

5.4. Segment Optima Telekom consolidated

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Fixed revenue	221	211	-4.5%	113	104	-8.5%
Revenue	221	211	-4.5%	113	104	-8.5%
Other operating income	1	1	57.4%	0	1	61.4%
Operating expenses	109	100	-8.6%	54	48	-10.5%
Contribution to EBITDA before exceptional items	113	113	0.0%	60	56	-6.1%

5.5. Segment Crnogorski Telekom consolidated

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Mobile revenue	0	148	-	0	78	-
Fixed revenue	0	142	-	0	70	-
System solution	0	17	-	0	10	-
Revenue	0	306	-	0	158	-
Other operating income	0	1	-	0	1	-
Operating expenses	0	203	-	0	99	-
Contribution to EBITDA before exceptional items	0	105	-	0	59	-

6. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue increased by HRK 59 million or 2.1% to HRK 2,936 million in H1 2017 when compared to H1 2016. Increase was driven by higher mobile revenue coming from postpaid and mobile handset revenue, 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, compensated by higher wholesale and TV revenue.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 28 million or 2.3% to HRK 1,254 million in H1 2017, mainly as a result of higher revenue, lower employee benefits expenses before exceptional items, lower other expenses excluding exceptional items. This was partially offset by higher material expenses driven mainly by higher merchandise costs related to retention activities taken in mobile segment, lower other operating income, higher write down of assets and lower own work capitalized.

Net profit after non controlling interests

Net profit after non controlling interests decreased by HRK 13 million or 3.2% to HRK 397 million in H1 2017. Decrease was primarily a result of higher depreciation and amortization driven by electronic communication infrastructure assets, lower exceptional items mainly related to personnel redundancy restructuring costs. This was partially compensated by higher EBITDA before exceptional items and lower taxation.

7. 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.

8. HT Group 2017 outlook, including Crnogorski Telekom

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 and the impact of Crnogorski Telekom consolidation as of 1 January 2017, the Board now expects 2017 revenue to be around 10% higher than in 2016.

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; total investments are expected to be moderately higher than in 2016.

9. HT Group Financial statements

9.1 Consolidated Income Statement

in HRK million (IFRS)	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Mobile revenue	1,350	1,542	14.2%	696	797	14.6%
Fixed revenue	1,675	1,788	6.8%	843	891	5.7%
System solutions	330	292	-11.5%	165	151	-8.4%
Miscellaneous	46	69	48.7%	25	34	33.8%
Revenue	3,402	3,691	8.5%	1,729	1,874	8.3%
Other operating income	69	61	-12.7%	28	38	36.2%
Total operating revenue	3,472	3,752	8.1%	1,757	1,911	8.8%
Operating expenses	2,195	2,345	6.9%	1,048	1,146	9.4%
Material expenses	1,023	1,077	5.2%	514	537	4.4%
Employee benefits expenses	503	514	2.2%	214	248	15.8%
Other expenses	688	763	11.0%	340	372	9.2%
Work performed by the Group and capitalised	-44	-46	5.1%	-30	-31	2.0%
Write down of assets	24	37	54.7%	10	21	117.6%
EBITDA	1,277	1,406	10.1%	709	765	7.9%
Depreciation and amortization	691	825	19.4%	342	412	20.5%
EBIT	586	582	-0.7%	367	353	-3.8%
Financial income	30	30	-0.2%	11	7	-33.3%
Income/loss from investment in joint ventures	-2	1	-137.5%	1	2	87.7%
Financial expenses	98	114	16.8%	28	44	53.8%
Profit before taxes	516	498	-3.6%	350	318	-9.2%
Taxation	105	90	-14.5%	71	56	-21.3%
Net profit	411	408	-0.8%	279	262	-6.1%
Non controlling interests	-6	-2	-66.1%	-3	0	-110.7%
Net profit after non controlling interests	417	410	-1.7%	282	262	-7.1%
Exceptional items ¹⁾	62	51	-16.6%	2	19	731.0%
EBITDA before exceptional items	1,339	1,458	8.9%	711	784	10.2%

¹⁾ Related mainly to redundancy restructuring costs

9.2 Consolidated Balance Sheet

in HRK million	At 31 Dec 2016	At 30 Jun 2017	% of change A17/A16
Intangible assets	1,738	2,245	29.2%
Property, plant and equipment	5,619	6,210	10.5%
Non-current financial assets	1,352	1,332	-1.5%
Receivables	121	216	79.2%
Deferred tax asset	59	56	-6.2%
Total non-current assets	8,889	10,059	13.2%
Inventories	111	137	23.4%
Receivables	1,327	1,586	19.5%
Current financial assets	1,189	43	-96.4%
Cash and cash equivalents	2,676	2,770	3.5%
Prepayments and accrued income	262	203	-22.4%
Total current assets	5,566	4,740	-14.8%
TOTAL ASSETS	14,455	14,798	2.4%
Subscribed share capital	9,823	9,809	-0.1%
Reserves	492	492	0.0%
Revaluation reserves	2	0	-95.2%
Retained earnings	633	1,058	67.3%
Net profit for the period	934	410	-56.1%
Non controlling interests	163	380	132.9%
Total issued capital and reserves	12,046	12,149	0.9%
Provisions	53	76	43.4%
Non-current liabilities	472	510	8.1%
Deferred tax liability	35	49	38.7%
Total non-current liabilities	561	636	13.3%
Current liabilities	1,741	1,916	10.0%
Deferred income	89	95	6.7%
Provisions for redundancy	17	2	-86.0%
Total current liabilities	1,847	2,014	9.0%
Total liabilities	2,408	2,650	10.0%
TOTAL EQUITY AND LIABILITIES	14,455	14,798	2.4%

9.3 Consolidated Cash Flow Statement

in HRK million	H1 2016	H1 2017	<i>% of change A17/A16</i>
Profit before tax	516	498	-3.6%
Depreciation and amortization	691	825	19.4%
Increase / decrease of current liabilities	-128	45	135.2%
Increase / decrease of current receivables	-6	28	547.7%
Increase / decrease of inventories	-16	-44	-179.3%
Other cash flow increases / decreases	-123	-122	0.9%
Net cash inflow/outflow from operating activities	934	1,230	31.7%
Proceeds from sale of non-current assets	44	27	-37.8%
Proceeds from sale of non-current financial assets	1	1	4.3%
Interest received	9	6	-40.4%
Dividend received	3	0	-100.0%
Other cash inflows from investing activities	991	2,406	142.7%
Total increase of cash flow from investing activities	1,048	2,440	132.7%
Purchase of non-current assets	-696	-701	-0.7%
Purchase of non-current financial assets	-75	-924	
Other cash outflows from investing activities	-781	-1,244	-59.3%
Total decrease of cash flow from investing activities	-1,551	-2,869	-84.9%
Net cash inflow/outflow from investing activities	-503	-429	14.7%
Total increase of cash flow from financing activities			-
Repayment of loans and bonds	-14	-57	-304.7%
Dividends paid	-491	-493	-0.4%
Repayment of finance lease	-4	-51	
Other cash outflows from financing activities	-155	-142	8.3%
Total decrease in cash flow from financing activities	-664	-743	-11.9%
Net cash inflow/outflow from financing activities	-664	-743	-11.9%
Exchange gains/losses on cash and cash equivalents	-26	-22	14.3%
Cash and cash equivalents at the beginning of period	3,175	2,734	-13.9%
Net cash (outflow) / inflow	-259	35	113.7%
Cash and cash equivalents at the end of period	2,916	2,770	-5.0%

9.4 Consolidated EBITDA reconciliation

in HRK million	H1 2016	H1 2017	% of change A17/A16	Q2 2016	Q2 2017	% of change A17/A16
Segment Result (Contribution to EBITDA)						
Residential Segment	1,264	1,256	-0.7%	640	644	0.6%
Business Segment	643	638	-0.7%	339	330	-2.6%
Network and Support Functions	-682	-655	4.0%	-327	-305	6.7%
Segment Optima consolidated	113	113	0.0%	60	56	-6.1%
Segment Crnogorski telekom consolidated	0	105	-	0	59	-
Total Contribution to EBITDA before exceptional items of the Segments	1,339	1,458	8.9%	711	784	10.2%
Exceptional items	62	51	-16.6%	2	19	731.0%
Total EBITDA	1,277	1,406	10.1%	709	765	7.9%

9.5 Notes to the condensed consolidated financial statements for the six months ended on 30 June 2017

Basis of preparation

The condensed consolidated financial statements as of 30 June 2017 and for the six 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 2016.

Dividends

On 25 April 2017 General Assembly of Hrvatski Telekom d.d. reached a decision on dividend distribution for 2016 in amount of HRK 491,313,414.00 (6.00 HRK per share).

Dividend was paid in May 2017.

Business combinations

Acquisition of Crnogorski Telekom AD Podgorica

In January 2017, Group signed a Sale and Purchase agreement to acquire majority shareholding in Crnogorski Telekom AD Podgorica from Magyar Telekom NYRT Hungary. The transaction was executed through purchase of a SPV entity which holds 76.5283% shares of Crnogorski Telekom AD. Since the entities involved in this transaction are all part of the DT Group, the Group records all assets acquired, liabilities assumed and any non-controlling interest in the acquire using the predecessor accounting method. The fair value of consideration transferred in this transaction was HRK 924 million.

The fair value of the identifiable assets and liabilities of Crnogorski Telekom as at the date of acquisition were:

	Fair value recognised at acquisition HRK millions
Assets	
Intangible assets	381
Property, plant and equipment	590
Non-current financial assets	62
Inventories	10
Trade receivables	232
Prepaid expenses and other current assets	34
Deferred tax asset	18
Cash and cash equivalents	58
	<hr style="width: 100%; border: 0.5px solid black;"/>
	1,385
	<hr style="width: 100%; border: 0.5px solid black;"/>
Liabilities	
Long-term liabilities	20
Trade payables	249
Other liabilities and accrued expenses	94
Deferred tax liability	35
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	398
	<hr style="width: 100%; border: 0.5px solid black;"/>
Total identifiable net assets at fair value	987
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Non-controlling interest	(232)
	<hr style="width: 100%; border: 0.5px solid black;"/>
Goodwill arising on acquisition using predecessor accounting method	157
Difference recognised on equity	12
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Purchase consideration transferred	924
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The total cost of acquisition amounted to HRK 924 million.

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

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

Merger of OT-Optima Telekom d.d. and H1 TELEKOM d.d.

On 14 June 2017 the Croatian Competition Agency has also reached the decision on conditional approval of the merger pursuant to the Merger Agreement of the company H1 TELEKOM d.d. and OT-Optima Telekom d.d.

In preparation for the merger process between H1 and Optima, and in light of AZTN's decision on clearance of concentration, the Supervisory Board of H1 TELEKOM d.d. appointed Optima's members of the Board of Directors.

Furthermore, both companies participating in the merger process filed applications with competent courts to register the merger, in accordance with the provisions of the Companies Act. After the competent court's decision on the merger, Optima will become the universal legal successor of H1 TELEKOM d.d.

Consolidation of H1 TELEKOM d.d. results has been postponed for the next period.

Segment information

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

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

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

The Network and support function (NSF) 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 Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in whole amount on Miscellaneous revenue line. According to "Chinese wall" introduced by regulator, access to Optima Telekom figures is limited. So only financial consolidation is performed, while Optima Telekom non financial KPIs are not included into Group achievements.

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

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

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

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

Period ended 30 June 2016	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	1.853	1.328	-	221	-	3.402
Mobile revenue	911	439	-	-	-	1.350
Fixed revenue	922	532	-	221	-	1.675
System solutions revenue	-	330	-	-	-	330
Miscellaneous revenue	20	27	-	-	-	47
Usage related direct costs	(104)	(97)	-	(48)	-	(249)
Income and losses on accounts receivable	(1)	(19)	-	(2)	-	(22)
Contribution margin I	1.748	1.212	-	171	-	3.131
Non-usage related direct costs	(296)	(396)	-	(6)	-	(698)
Segment result	1.452	816	-	165	-	2.433
Other income	-	-	69	1	-	70
Other operating expenses, restated	(203)	(185)	(786)	(52)	-	(1.226)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(645)	(46)	-	(691)
Operating profit, restated	1.249	631	(1.362)	68	-	586

Period 1 April to 30 June 2016	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	939	677	-	113	-	1.729
Mobile revenue	467	228	-	-	-	695
Fixed revenue	462	268	-	113	-	843
System solutions revenue	-	165	-	-	-	165
Miscellaneous revenue	10	16	-	-	-	26
Usage related direct costs	(53)	(52)	-	(25)	-	(130)
Income and losses on accounts receivable	2	(10)	-	-	-	(8)
	-	-	-	-	-	-
Contribution margin I	888	615	-	88	-	1.591
Non-usage related direct costs	(155)	(193)	-	(3)	-	(351)
	-	-	-	-	-	-
Segment result	733	422	-	85	-	1.240
Other income	-	-	28	1	-	29
Other operating expenses, restated	(94)	(84)	(356)	(26)	-	(560)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(319)	(23)	-	(342)
	-	-	-	-	-	-
Operating profit, restated	639	338	(647)	37	-	367

Period ended 30 June 2017	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	1.857	1.317	-	211	306	3.691
Mobile revenue	946	449	-	-	148	1.543
Fixed revenue	892	543	-	211	141	1.787
System solutions revenue	-	275	-	-	17	292
Miscellaneous revenue	19	50	-	-	-	69
Usage related direct costs	(97)	(105)	-	(41)	(26)	(269)
Income and losses on accounts receivable	(14)	(13)	-	(2)	(4)	(33)
	-	-	-	-	-	-
Contribution margin I	1.746	1.199	-	168	276	3.389
Non-usage related direct costs	(311)	(376)	-	(4)	(52)	(743)
	-	-	-	-	-	-
Segment result	1.435	823	-	164	224	2.646
Other income	-	-	58	1	1	60
Other operating expenses	(185)	(206)	(732)	(53)	(123)	(1.299)
Depreciation, amortization and impairment of non- current assets	-	-	(695)	(49)	(81)	(825)
	-	-	-	-	-	-
Operating profit	1.250	617	(1.369)	63	21	582

Period 1 April to 30 June 2017	Residential	Business	Network and support functions	Optima Telekom	Crnogorski Telekom	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Net revenue	938	674	-	103	158	1.873
Mobile revenue	484	236	-	-	78	798
Fixed revenue	446	271	-	103	70	890
System solutions revenue	-	141	-	-	10	151
Miscellaneous revenue	8	26	-	-	-	34
Usage related direct costs	(46)	(56)	-	(20)	(14)	(136)
Income and losses on accounts receivable	(9)	(8)	-	-	(1)	(18)
	-	-	-	-	-	-
Contribution margin I	883	610	-	83	143	1.719
Non-usage related direct costs	(149)	(188)	-	(2)	(26)	(365)
	-	-	-	-	-	-
Segment result	734	422	-	81	117	1.354
Other income	-	-	37	-	-	37
Other operating expenses	(89)	(107)	(342)	(26)	(61)	(625)
Depreciation, amortization and impairment of non-current assets	-	-	(347)	(25)	(41)	(413)
	-	-	-	-	-	-
Operating profit	645	315	(652)	30	15	353

Relations with the governing company and its affiliated companies

In the six months of 2017 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 six months of 2017 there were no changes in transactions among related parties which were specified in the annual financial report for 2016 and which had a significant impact on the financial position and operations of the Group in the first six months of 2017.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first six months of 2017 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 six months of 2017 the Group generated total revenue from related companies from international traffic to the amount of HRK 38 million (the first six months of 2016: HRK 29 million), while total costs of international traffic amounted to HRK 37 million (the first six months of 2016: HRK 33 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 1 million in the six months of 2017 (the first six months of 2016: HRK 4 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 six months of 2017 the Company paid a total amount of HRK 0.6 million (the first six months of 2016: HRK 0.4 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 six months of 2016 the total compensation paid to key management personnel of the Group amounted to HRK 29 million (first six months of 2017: HRK 23 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.

10. 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 six months of 2017 contains a true presentation of development and results of operations and position of the Group, with description of significant risks and uncertainties for the Group as a whole.

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

Mr. 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

Zagreb, 27 July 2017

11. Presentation of information

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

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

References in this publication to “Agency” are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.

12. Disclaimer

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