



Zagreb – 26 October 2017

Hrvatski Telekom Results for the nine months ended 30 September 2017

Growth of revenue and EBITDA, along with a strong investment cycle

- *Capex realisation increased by 28%*
- *Optical access coverage increased by 17% in the fixed network*
- *Significant increase of speed in the mobile network for 47% of customers*

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the nine months of 2017. The results for the nine months of 2017 also include the impact of H1 Telekom d.d. upon completion of the merger process of H1 Telekom d.d. into OT - Optima Telekom d.d.

Compared to the nine months of 2016, total consolidated revenue has increased by 11.6% to HRK 5,785 million. Excluding Crnogorski Telekom's contribution, revenue has increased by 2.4% compared to the same period in 2016. Excluding the impact of H1 Telekom, revenue has grown by 2.1%. Hrvatski Telekom continues achieving growth in mobile, broadband and TV, wholesale, energy business, system solutions, and other fixed revenue.

EBITDA before exceptional items has increased by 11% to HRK 2,345 million compared to the same period in 2016. EBITDA margin is at a 40.5% level. Excluding Crnogorski Telekom's contribution, EBITDA before exceptional items has increased by 3% to HRK 2,177 million, with EBITDA margin of 41%. Excluding the impact of H1 Telekom, EBITDA before exceptional items has increased by 2.7 %.

For the nine months of 2017, realised net profit amounts to HRK 735 million. Compared to the same period in 2016, net profit has decreased by HRK 17 million, i.e. by 2.2%. Excluding Crnogorski Telekom's contribution, realised net profit amounts to HRK 709 million, which is a 5.7% decrease. Net profit realisation is influenced by higher depreciation and amortisation driven by increased infrastructure investments, increased asset value adjustment primarily related to increased value adjustment of receivables as a result of market influences and financial expenses related to foreign exchange differences.

Continued investment in network infrastructure and innovative services

Compared to the same period in 2016, Capex realisation in the nine months of 2017 has increased by 28%, including Crnogorski Telekom's contribution. Excluding the latter, Capex realisation has increased by 18.1% compared to the same period in 2016, amounting to HRK 1,155 million.

Successful business operation of Hrvatski Telekom has allowed for significant investments in network infrastructure, resulting in increased speeds and higher capacities in the fixed and mobile networks.

By the end of September 2017, a total of 345 thousand Croatian households were provided with optical access in the fixed network, which resulted in a 17% increase of optical access coverage compared to the end of 2016. Next generation access coverage is now available in 57% of Croatian households, which have been provided with possible speeds above 30 Mbit/s, while speeds above 100 Mbit/s are available in 18% of households.

At the same time, along with a strong 79% increase in the total traffic volume during the tourist season and a 328% increase in data traffic, increased speeds have been made available in the mobile network. Compared to the same period in the previous year, indoor 4G population coverage reached 75% by the end of September 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. High speed of 4G network with a download speed of 262.5 Mbit/s has been enabled for 47% of customers.

On the fixed network broadband services and TV market, HT has achieved a 3% growth of the broadband services customer base and a 5% growth of the TV services customer base compared to the same period in 2016.

The number of Magenta1 customers has been continuously rising and currently amounts to 92 thousand households, thus confirming the value of the concept of premium customer experience and benefits.

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

"I am more than satisfied with the results achieved in the nine months of 2017. The strong financial results will allow us to continue investing and thus build firm foundations for next generation services and premium customer experience. The growth of the TV services customer base shows that, by means of our new TV platform introduced in the second half of this year, which includes top picture quality, interactivity, a new interface, and full integration with mobile devices, we have provided our customers with a unique service fully adjusted to their expectations. We successfully supported strong growth of data traffic during the tourist season and at the same time provided increased speeds in the mobile and fixed networks.

In the periods to come, we will continue investing into the network and into the digital transformation of our Company as prerequisites for the best customer experience and a premium position in the local and regional 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

+44 (0) 1452 555 566

Conference ID

1298739

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

International Dial In

+44 (0)1452 550 000

Conference ID

1298739

A presentation covering results for the first nine 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 nine months of 2017

HT Group has successfully responded to market challenges and continued to lead the Croatian telecommunications market across all business segments in the first nine months of 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

Stronger GDP growth in 2017 than in 2016

The Croatian economy continued to recover during the first half of the current year with year-on-year growth figures of 2.5% and 2.8% for the first two quarters, respectively. Private consumption made the highest contribution to the overall GDP growth, as well as increasing import and exports of goods. Since cumulative government consumption increased in the first half of 2017 by 1.6% compared to the previous year, this will surely be reflected in yearly economic growth.¹

The average unemployment rate of 13.1% in the first seven months of 2017, a decrease of 2.5 percentage points from the same period in 2016, is almost entirely the result of a constant decrease in unemployment and not of the increased labour supply.¹

Economic recovery, coupled with the tax reform and the increase in wages of the entire public sector by 2%, led to a rise in wages in the first six months of 2017. In comparison to the same period in 2016, average net wages grew by 3.9% in real terms in the first half of 2017.¹ We are facing with moderate inflation with growing average consumer price index (CPI) by app. 1% in the first eight months of 2017 vs. the same period of 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 2017: Vipnet's acquisition of Metronet in February 2017 and Optima Telekom's acquisition of H1

¹ Source: Croatian Bureau of Statistics, "Croatian Economic Outlook No. 71", The Institute of Economics Zagreb, September 2017

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 121.6% at the end of September 2017. The Company maintains leading market position with estimated mobile SIM market share of 45.8%.

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 7.0% in the first half of 2017, while total mobile market minutes of use (MOU) grew by 1.7% in the same period.² On the other hand, due to the aforementioned reasons, total broadband traffic grew year-on-year by 30.4% in the first half of 2017².

The negative trend in usage of fixed voice services resulted with a decline of originating voice minutes by 6.9% yoy in the first half of 2017².

The Croatian fixed broadband market continued to grow at a yearly rate by 6.7% reaching 1.08 million fixed broadband connections at the end of June 2017. An increase of fixed high-speed broadband connections, counting 20% of total fixed broadband connections, was a result of further investments in network infrastructure by fixed operators and the increased user demand for high-speed internet services.³

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

The Croatian Pay TV market continues to grow in the first six months of 2017, reaching 816 thousand customers at the end of June 2017 (growth by 4.4% on yearly level)⁴.

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 2017 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) was 136 thousand at the end of September 2017, which is increase of 6% compared to the same period last year. A number of broadband wholesale customers decreased compared to previous period due to higher usage of operators' own infrastructure. A number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) decreased as a result of high churn and migration to broadband services (NBSA) and operators' own

² Source: Croatian Post and Electronic Communications Agency's quarterly report for Q2/2017

³ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q2/2017

⁴ Source: Croatian Post and Electronic Communications Agency's quarterly report for Q2/2017

infrastructure. That resulted with 135 thousand of ULL access and 68 thousand of WLRs at the end of September 2017.

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

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

IT market

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)⁵.

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

Energy market

Compared to previous year buying price on energy market increased significantly which led to cost increase. Also, at the end of 2016 Croatian Government ceased a part of "Renewables Law" which sets suppliers free of obligation to buy green energy at premium price. That is manifested as an additional cost. 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

Entry into force of new interconnection fees

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

Amendments to the Electronic Communications Act (ECA)

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

⁵ Source: IDC Adriatics, June 2017

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

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

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

On September 20th, 2017 HAKOM adopted the amendments to the OCFRW. Amendments do not interfere into the prescribed amount of the fee for the right of way, but into the procedure of determination the infrastructure operator and fee for the right of way. Among other, the most significant changes are following: (i) HAKOM issues certificate only on the infrastructure operator's request, while in the case of request of the owner of private property or the manager of public property, HAKOM does not issue certificate but decision in which it determines the infrastructure operator, quantity and sort of the electronic communications infrastructure build on the properties and the annual amount of fee for the right of way; (ii) according to the OCFRW, fee for the right of way does not count anymore from the day of issuing a certificate, but from the day of receiving a request in HAKOM.

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

1.5 Changes in reporting

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

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

Q3 2017 results include contribution of H1 Telekom d.d. after approval of merger process that resulted with consolidation of H1 Telekom d.d. into the OT – Optima Telekom d.d. For segment reporting purposes contribution of H1 is included in segment Optima consolidated.

1.6 Summary of key financial indicators

HT Group (including Crnogorski Telekom), in HRK million

INCOME STATEMENT	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Revenue	5.184	5.785	11,6%	1.782	2.094	17,5%
Mobile	2.117	2.478	17,0%	767	936	22,1%
Fixed voice	726	707	-2,6%	238	230	-3,2%
Broadband & TV	986	1.084	9,9%	334	364	9,1%
Fixed wholesale	271	291	7,4%	99	86	-12,7%
Other fixed	545	611	12,2%	182	224	23,2%
System solutions	461	501	8,7%	131	209	59,9%
Miscellaneous	78	112	43,3%	32	43	35,4%
EBITDA before exceptional items	2.112	2.345	11,0%	774	887	14,6%
Exceptional items	62	102	63,3%	1	50	8671,4%
EBITDA after exceptional items	2.050	2.243	9,4%	773	837	8,2%
EBIT (Operating profit)	1.012	988	-2,4%	426	406	-4,7%
Net profit after non controlling interests	752	735	-2,2%	335	325	-2,9%
EBITDA margin before exceptional items	40,7%	40,5%	-0,2 p.p.	43,4%	42,4%	-1,1 p.p.
EBITDA margin after exceptional items	39,5%	38,8%	-0,8 p.p.	43,4%	40,0%	-3,4 p.p.
EBIT margin	19,5%	17,1%	-2,4 p.p.	23,9%	19,4%	-4,5 p.p.
Net profit margin	14,5%	12,7%	-1,8 p.p.	18,8%	15,5%	-3,3 p.p.

BALANCE SHEET	At 31 Dec 2016	At 30 Sep 2017	% of change A17/A16	At 31 Dec 2016	At 30 Sep 2017	% of change A17/A16
Total non current assets	8.889	10.302	15,9%	8.889	10.302	15,9%
Total current assets	5.566	4.960	-10,9%	5.566	4.960	-10,9%
TOTAL ASSETS	14.455	15.263	5,6%	14.455	15.263	5,6%
Total issued capital and reserves	12.046	12.523	4,0%	12.046	12.523	4,0%
Total non current liabilities	561	699	24,6%	561	699	24,6%
Total current liabilities	1.847	2.041	10,5%	1.847	2.041	10,5%
TOTAL EQUITY AND LIABILITIES	14.455	15.263	5,6%	14.455	15.263	5,6%

CASH FLOW	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Net cash flow from operating activities	1.644	1.887	14,8%	710	657	-7,4%
Net cash flow from investing activities	-1.003	-865	13,8%	-500	-435	12,9%
Net cash flow from financing activities	-731	-862	-17,9%	-67	-119	-78,3%
Cash and cash equivalents at the end of peri	3.072	2.876	-6,4%	156	106	-32,2%

CAPEX	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
CAPEX	977	1.250	28,0%	332	427	28,5%
CAPEX / Revenue ratio	18,8%	21,6%	2,8 p.p.	18,6%	20,4%	1,8 p.p.

NUMBER OF EMPLOYEES	At 30 Sep 2016	At 30 Sep 2017	% of change A17/A16	At 30 Sep 2016	At 30 Sep 2017	% of change A17/A16
Number of employees (FTEs)	4.464	5.146	15,3%	4.464	5.146	15,3%

RESIDENTIAL SEGMENT	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Revenue	2.809	2.805	-0,1%	956	949	-0,8%
Contribution to EBITDA before exceptional items	1.935	1.909	-1,3%	671	653	-2,6%

BUSINESS SEGMENT	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Revenue	2.043	2.153	5,4%	715	836	16,9%
Contribution to EBITDA before exceptional items	1.045	1.024	-2,0%	402	386	-4,0%

NETWORK & SUPPORT FUNCTIONS	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Contribution to EBITDA before exceptional items	-1.042	-954	8,5%	-360	-299	16,9%

SEGMENT OPTIMA CONSOLIDATED	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Revenue	332	350	5,4%	111	138	25,2%
Contribution to EBITDA before exceptional items	175	195	11,6%	61	82	33,1%

SEGMENT CRNOGORSKI TELEKOM CONSOL	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Revenue	n/a	476	n/a	n/a	170	n/a
Contribution to EBITDA before exceptional items	n/a	170	n/a	n/a	65	n/a

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Nine months to 30 Sep 2016	7.53	7.51	6.75	6.70
Nine months to 30 Sep 2017	7.44	7.50	6.69	6.35

2. Business Review

HT Croatia, in HRK million

INCOME STATEMENT	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Revenue	5.184	5.311	2,4%	1.782	1.924	8,0%
Mobile	2.117	2.239	5,7%	767	844	10,1%
Fixed voice	726	645	-11,2%	238	210	-11,8%
Broadband & TV	986	993	0,7%	334	334	0,0%
Fixed wholesale	271	274	1,3%	99	79	-19,9%
Other fixed	545	569	4,4%	182	210	15,8%
System solutions	461	479	3,8%	131	203	55,2%
Miscellaneous	78	112	43,3%	32	43	35,4%
EBITDA before exceptional items	2.112	2.177	3,0%	774	823	6,4%
Exceptional items	62	98	57,1%	1	49	8504,4%
EBITDA after exceptional items	2.050	2.079	1,4%	773	774	0,1%
EBIT (Operating profit)	1.012	946	-6,6%	426	384	-9,8%
Net profit after non controlling interests	752	709	-5,7%	335	313	-6,6%
EBITDA margin before exceptional items	40,7%	41,0%	0,2 p.p.	43,4%	42,8%	-0,6 p.p.
EBITDA margin after exceptional items	39,5%	39,1%	-0,4 p.p.	43,4%	40,2%	-3,2 p.p.
EBIT margin	19,5%	17,8%	-1,7 p.p.	23,9%	20,0%	-3,9 p.p.
Net profit margin	14,5%	13,4%	-1,1 p.p.	18,8%	16,2%	-2,5 p.p.

Key operational data	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Mobile customers in 000						
Number of customers	2.332	2.297	-1,5%	2.332	2.297	-1,5%
- Prepaid	1.202	1.075	-10,6%	1.202	1.075	-10,6%
- Postpaid	1.130	1.222	8,2%	1.130	1.222	8,2%
Minutes of use (MOU) per average customer	200	216	8,2%	190	221	16,3%
Blended ARPU (monthly average for the period in HRK)	76	77	1,0%	79	78	-1,2%
- Prepaid	42	43	1,6%	45	45	0,1%
- Postpaid	110	107	-2,7%	113	106	-6,6%
Blended non-voice ARPU (monthly average for the period in HRK)	38	40	4,9%	40	41	2,5%
SAC per gross add in HRK	93	117	25,7%	81	95	18,1%
Churn rate (%)	2,1	2,3	0,2 p.p.	1,5	2,1	0,6 p.p.
Penetration (%) ¹⁾	120	122	1,2 p.p.	120	122	1,2 p.p.
Market share of customers (%) ¹⁾	46	46	-0,6 p.p.	47	46	-1,2 p.p.
Smartphone customers (%) ²⁾	58	61	3,4 p.p.	58	61	3,4 p.p.
Smartphones sold (%) ³⁾	80	80	0,0 p.p.	80	79	-1,0 p.p.

1) Source: internal estimation of the competitors customers for EO September 2017

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

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

Key operational data	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	935	885	-5,3%	935	885	-5,3%
Fixed mainlines - wholesale (WLR - wholesale line rental)	88	68	-23,2%	88	68	-23,2%
ARPU voice per user (monthly average for the period in HRK) ²⁾	85	79	-6,7%	84	78	-7,1%
IP mainlines/customers in 000						
Broadband access lines - retail ³⁾	611	624	2,1%	611	624	2,1%
Broadband access lines - wholesale ⁴⁾	129	136	6,0%	129	136	6,0%
TV customers	394	413	4,8%	394	413	4,8%
Broadband retail ARPU (monthly average for the period in HRK)	122	118	-3,4%	123	118	-4,1%
TV ARPU (monthly average for the period in HRK)	82	81	-1,1%	83	81	-2,2%
Wholesale customers in 000						
ULL (Unbundled Local Loop)	151	135	-10,2%	151	135	-10,2%

1) Includes PSTN, FGSM, old PSTN Voice customers migrated to IP platform and Smart packages for business; payphones excluded

2) Payphones excluded

3) Includes ADSL, VDSL, FTTH and Naked DSL

4) Includes Naked Bitstream + Bitstream

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

HT Group highlights:

- Significant efforts taken to maintain position in the market
 - HT managed to keep the leading mobile market share with estimated portion of 45.8%
 - The Croatian fixed broadband and TV market continued to grow, HT recording growth of broadband customer base by 2% and TV customer base by 5% in comparison to previous year.
 - HT's Magenta1 convergent offer achieved 92 thousand of consumer households while in business area there are 8 thousand of Magenta1 active accounts that position HT as One-Stop-Shop on market
 - Under influence of EU RLH regulation, in 3Q 2017 HT visitor revenue increased 70% with visitor data traffic increase of 328% in comparison to the same period previous year
 - In Montenegro, in 3Q 2017 visitor revenues grew 55% yoy due to extraordinary touristic season with roamers from wide range of countries. Magenta1 achieved almost 15% of consumer households, while in business area there are more than 1.000 active accounts.

- The main financial KPIs growing under influence of Crnogorski Telekom
 - Revenue is above 3Q 2016 by HRK 601 million or 11.6%. Excluding CT contribution of HRK 474 million, revenue above by HRK 127 million or 2.4%.
 - EBITDA is above 3Q 2016 by HRK 232 million or 11.0%. Excluding CT contribution of HRK 168 million, EBITDA is above by HRK 64 million or 3.0%.
 - Capex realization is above 3Q 2016 by HRK 273 million or 28.0%. Excluding CT contribution of HRK 96 million, Capex is above by HRK 177 million or 18.1%.

- Transformation continued in 3Q 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
 - Crnogorski Telekom launched several synergy projects with positive impact in 3Q 2017. Sales productivity program increased average number of sales transactions in Shops by 31% yoy. Synergy initiatives improved debt collection, reduced direct cost and positively impacted customer satisfaction.
 - Share Buyback Program has started on 3 July 2017 and it will last until 20 April 2021. Acquired own shares in the Program are to be withdrawn without reducing the issued share capital by which the portion of the remaining shares will be increased. The number of redeemed shares amounted 125,536 on 30 September 2017.

- Strong financial performance is ensuring significant investment in network infrastructure
 - Significant speed increase in optical network - FTTx access is enabled for 345 thousand households while NGA access availability increased to 57% of Croatian households
 - Speed in mobile network increased even with significant increase of mobile traffic - 79% traffic increased during tourist season, "indoor" 4G population coverage is 75% and "outdoor" coverage reached 98%
 - In Montenegro country wide BB coverage further expanded - VDSL coverage reached 32% of households, FTTH reached 34%. 4G "outdoor" coverage reached 95% and 4G "indoor" population coverage increased up to 64%.

Mobile telecommunications

Mobile customer base decreased by 1.5%, to 2,297 thousand customers at the end of 3Q 2017 in comparison to 3Q 2016 mainly as a result of prepaid underperformance.

Number of postpaid customers was higher by 8.2% than at the end of 3Q 2016 as a result of overall push of successful and attractive tariffs and handsets as well as successful Bonbon campaigns resulting with great overall performance.

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

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

Number of prepaid customers was 10.6% lower than in 3Q 2016 due to overall decline of prepaid market, less tourists using prepaid due to Roam like at home regulation and strong competition. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

In 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 activated 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 3Q 2017 increased by 8.2% compared to 3Q 2016 and blended ARPU increased by 1.0% as a result of postpaid segment overperformance.

Fixed line

By the end of 3Q 2017, total fixed mainlines of 885 thousand were by 5.3% lower than at the end of 3Q 2016. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro - and reactive churn prevention offers and activities.

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

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

Fixed voice ARPU decreased by 6.7% compared to 3Q 2016 as a result of mentioned general market trends.

Broadband

At the end of 3Q 2017 broadband customer base was higher by 2.1% in the comparison to the end of 3Q 2016 reaching 624 thousand, due to Magenta1 and elderly proposition offers results.

At the same time broadband retail ARPU was 3.4% below 3Q 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 4.8% increase from 3Q 2016, is at the level of 413 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 3Q 2016 by 1.1%.

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

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

Wholesale

At the end of 3Q 2017 there were 135 thousand of active ULL lines, which was lower by 10.2% in comparison to the same period last year. Number of ULL lines decreased due to focus of alternative operators to broadband services and overall decline of fixed single voice market.

Broadband wholesale access lines (BSA and naked BSA lines) reached 136 thousand at the end of September 2017, which was 6.0% 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 3Q 2017 decreased by 23.2% compared to previous year and reached 68 thousand as a result of declining voice market and migration to broadband services.

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

In 2017 successful sales continued in spite of competitive domestic wholesale market of data and IP services. Especially successful was sale of IP upstream services with growth of 17.2% in volume comparing to the same period last year.

In the international wholesale market total capacity of sold IP increased by 26.4% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2017, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 65.2% more voice originating minutes and 328.1% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 111.0% more roaming voice traffic in foreign countries and 366.4% more data traffic. During 2017, additional 4G (LTE) international roaming services with foreign partners were set up reaching 134 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 32.5% in 3Q 2017 compared to the same period last year. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 13.2% and from HT mobile network users increased by 60.1%.

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.

Combis is focusing on new products and solutions, new markets and business niches. Cloud connected products, banking solution products, digital tourism, Internet of things and security as well as new applications represent solid ground for stable growth.

Energy

Revenues from energy were higher by HRK 34 million or 47.3% when compared to 3Q 2016 due to higher number of business customers in spite of lower base of residential customers. 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 601 million or 11.6% to HRK 5,785 million in 3Q 2017 in comparison to 3Q 2016. Crnogorski Telekom contributed with HRK 474 million. Excluding Crnogorski Telekom, revenue is above 3Q 2016 by HRK 127 million or 2.4%. Increase is driven by higher mobile revenue (HRK 121 million or 5.7%), miscellaneous revenue (HRK 34 million or 43.3%) and higher system solution revenue (HRK 18 million or 3.8%), that compensated decline in fixed revenue (HRK 46 million or 1.8%).

Optima Telekom contribution to HT Group was above by HRK 4 million in comparison to 3Q 2016 and amounted to HRK 226 million in 3Q 2017. Contribution consisted of HRK 350 million of Optima Telekom third party contribution (3Q 2016: HRK 332 million) that was presented in the whole amount under fixed other revenue and HRK 124 million of inter-company relations that decreased mainly fixed wholesale revenue (3Q 2016: HRK 111 million).

Contribution of subsidiaries in Group revenue in 3Q 2017 amounted for Iskon HRK 287 million (3Q 2016: HRK 283 million) and for Combis HRK 318 million (3Q 2016: HRK 312 million).

Mobile revenue

Mobile revenue rose by HRK 361 million or 17.0% to HRK 2,478 million in 3Q 2017 in comparison to 3Q 2016. Crnogorski Telekom contributed with HRK 239 million. Excluding Crnogorski Telekom, mobile revenue is above 3Q 2016 by HRK 121 million or 5.7%. The growth resulted mainly from higher visitor revenue, handset revenue and postpaid revenue while prepaid revenue decreased as well as other mobile revenue.

Visitor revenue increased due to higher usage driven by more data traffic than in 3Q 2016 by 328.1% and supported with Roam Like at Home regulation.

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

Postpaid revenue increased primarily due to higher number of customers by 8.2%, under influence of overall push of successful and attractive tariffs such as Magenta1 and Young as well as successful Bonbon campaign resulting with great overall performance. Postpaid ARPU is below 3Q 2016 by 2.7% influenced by increased share of M2M subscribers and roaming regulation as well as more free minutes included in bundle offers.

Prepaid revenue decrease was result of decline in customer base by 10.6% compared to 3Q 2016. Decrease was driven by overall prepaid market decline and strong competition. Continuous efforts are taken in Simpa and Bonbon to mitigate on-going decline. Market recovery initiatives resulted with higher prepaid ARPU by 1.6% in comparison to 3Q 2016.

Other mobile revenue decreased mostly due to lower revenues from interests and dunning fees.

Fixed revenue

Fixed revenue increased by HRK 166 million or 6.6% to HRK 2,693 million in 3Q 2017 in comparison to 3Q 2016. Crnogorski Telekom contributed with HRK 212 million. Excluding Crnogorski Telekom, fixed revenue decreased by HRK 46 million or 1.8%. The fall resulted mainly from lower voice revenue and broadband revenue but it was partially compensated by higher other revenue, TV revenue and wholesale revenue.

In 3Q 2017, fixed line voice retail revenue decreased in comparison to 3Q 2016 mainly as a result of continuous decline in the number of revenue producing fixed mainlines (5.3%) 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 6.7%. ARPU decline is under influence of more low value residential customers using fixed voice services (mostly elderly population).

Broadband revenue decreased in comparison to the same period last year as a result of lower ARPU by 3.4% despite of higher customer base by 2.1%. 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.

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

TV revenue increased in comparison to the same period last year as a result of higher customer base by 4.8% despite of slightly lower TV ARPU by 1.1% as consequence of push of TV through Magenta1, new Elderly offer and retention activities.

In comparison to 3Q 2016, fixed wholesale revenue increased mainly due to network infrastructure revenue driven by higher quantity of NBSA by 19.1%, new regulated price models for NBSA and ULL price increase valid from January 2017 (increase from HRK 43.61 to HRK 49.53 with effect in amount

of HRK 2 million). This increase was partially offset by lower realization of ULL quantities by 10.2%. Consolidation of H1 from July 2017 had negative impact on wholesale revenues.

System Solutions

System solution revenue increased by HRK 40 million or 8.7% to HRK 501 million in 3Q 2017 in comparison to 3Q 2016. Crnogorski Telekom contributed with HRK 23 million. Excluding Crnogorski Telekom, system solution revenue is above 3Q 2016 by HRK 18 million or 3.8%.

Miscellaneous revenue

Increase in miscellaneous revenue (HRK 34 million or 43.3%) mainly comes from energy business due to higher number of business customers (10.1%) that generate large consumption of energy.

Other operating income

Other operating income increased by HRK 28 million or 30.3% compared to 3Q 2016. Crnogorski Telekom contributed with HRK 1 million. Excluding Crnogorski Telekom, other operating income increased by HRK 27 million or 28.7%. Increase is driven by higher real estate sale in 3Q 2017, partially offset by absence of commitment write off related to obligation for antenna poles retirement realized in 3Q 2016.

3.2 Operating expenses

Total consolidated operating expenses increased by HRK 436 million or 13.5% to HRK 3,663 million in 3Q 2017. Crnogorski Telekom contributed with HRK 311 million. Excluding Crnogorski Telekom, operating expenses increased by HRK 124 million or 3.9%.

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

Excluding Crnogorski Telekom and costs treated as exceptional items, mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation, operating expenses increased by HRK 89 million or 2.8%.

Material expenses

Material expenses increased to HRK 1,736 million in 3Q 2017 as a result of higher merchandise, material and energy expenses and services expenses. Crnogorski Telekom contributed with HRK 122 million. Excluding Crnogorski Telekom, material expenses increased by HRK 106 million or 7.0% as a result of higher merchandise, material and energy expenses partially offset by lower services expenses.

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

Increase of energy sales costs is influenced by higher business customer base and higher usage, higher energy cost on markets and new regulation that was introduced at the end of 2016 when Croatian Government ceased a part of "Renewables Law" which sets suppliers free of obligation to buy green energy at premium price.

Merchandise costs increase was driven by higher mobile merchandise, higher system solution merchandise following system solution revenue development and higher fixed merchandise compared to 3Q 2016.

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

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

Lower copyright fees were caused by higher share of capitalized content rights contracts in spite of higher TV customer base by 4.8%.

Employee benefits expenses

Total employee benefits expenses increased by HRK 44 million or 6.0% in 3Q 2017 as a result higher personnel costs offset by lower redundancy costs. Excluding Crnogorski Telekom in amount of HRK 75 million, total employee benefits decreased by HRK 31 million or 4.3% due to lower redundancy costs and lower personnel costs.

Total number of FTEs amounts to 5,146 with Crnogorski Telekom contribution of 514 FTEs. Excluding Crnogorski Telekom, number of FTEs increased from 4,464 in 3Q 2016 to 4,633 in 3Q 2017.

Other expenses

Other expenses increased by HRK 120 million or 11.7% to HRK 1,149 million in 3Q 2017. Crnogorski Telekom contributed with HRK 113 million. Excluding Crnogorski Telekom, other expenses are above 3Q 2016 by HRK 8 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 lower number of fault repairs due to increased quality of infrastructure and higher number of faults handled by HT technicians.

Lower license costs coming from optimization in license management.

Write down of assets

The assets write down increased by HRK 71 million or 242.1% to HRK 100 million in 3Q 2017. Crnogorski Telekom contributed with HRK 6 million. Excluding Crnogorski Telekom, assets write down increased by HRK 64 million or 220.3% mainly due to higher value adjustment of receivables driven by market influences.

Depreciation and amortization

Depreciation and amortization increased to HRK 1,255 million by HRK 217 million or 20.9% compared to 3Q 2016. Crnogorski Telekom contributed with HRK 122 million. Excluding Crnogorski Telekom, depreciation and amortization increased by HRK 95 million or 9.2% compared to 3Q 2016 mainly driven by electronic communication infrastructure assets and capitalization of content contracts.

3.3 HT Group profitability

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 232 million or 11.0% to HRK 2,345 million in 3Q 2017. Crnogorski Telekom contributed with HRK 168 million. Excluding Crnogorski Telekom, EBITDA before exceptional items increased by HRK 64 million or 3.0%. Increase is a result of higher revenue realization mainly driven by realization in mobile and higher other operating income due to higher sale of fixed assets, partially offset by higher operating expenses.

Optima Telekom contribution to 3Q 2017 Group EBITDA was above 3Q 2016 by HRK 3 million under influence of H1 consolidation. It amounted to HRK 79 million (3Q 2016: HRK 76 million) and consisted of HRK 195 million of Optima Telekom third party contribution (3Q 2016: HRK 175 million) and HRK 116 million of inter-company relations (3Q 2016: HRK 99 million).

Net profit after non controlling interests

In comparison to 3Q 2016, consolidated net profit after non controlling interests decreased by HRK 17 million or 2.2% to HRK 735 million in 3Q 2017. Crnogorski Telekom contributed with HRK 26 million. Excluding Crnogorski Telekom, net profit after non controlling interest decreased by HRK 43 million or 5.7%.

Net profit after non controlling interest decreased as a result of higher depreciation and amortization, higher net financial loss and higher costs that are treated as exceptional items mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation, partially compensated with higher EBITDA contribution, lower taxation, and lower non controlling interest.

Optima Telekom contributed to HT Group net profit by loss of HRK 4 million (3Q 2016: loss of HRK 2 million).

3.4 Balance sheet

In comparison to 2016 year end, total asset value increased by 5.6% primarily driven by consolidation of Crnogorski Telekom and merger of H1 Telekom to Optima Telekom. Excluding consolidation of Crnogorski Telekom and H1 Telekom merger in 2017, total asset value remained stable.

Compared to 31 December 2016, total non-current asset increased by HRK 1,413 million or 15.9% as at 30 September 2017 under influence of Crnogorski Telekom consolidation. Total current asset decreased by HRK 605 million or 10.9% 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 12,523 million at 30 September 2017 mainly driven by Crnogorski Telekom consolidation, realized net profit for 3Q 2017 in the amount of HRK 735 million, partially offset with dividend payment amounting to HRK 491 million.

Total non-current liabilities increased by HRK 138 million or 24.6% mainly due to merger of H1 Telekom to Optima Telekom coming from their non-current liabilities for issued bond and liabilities towards banks. Excluding Crnogorski Telekom, non-current liabilities increased by 17.3% mostly due to higher liabilities related to retransmission rights.

Total current liabilities increased by HRK 194 million to HRK 2,041 million at 30 September 2017 driven by trade payables in Crnogorski Telekom. Excluding Crnogorski Telekom, current liabilities decreased by 7.8% 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 243 million or 14.8% driven by consolidation of Crnogorski Telekom that contributed by HRK 152 million. Without this effect, cash flow increased by HRK 91 million mainly due to better working capital management in 3Q 2017.

Net cash flow from investing activities increased by HRK 138 million or 13.8%. Excluding Crnogorski Telekom, cash flow from investing activities increased by HRK 219 million mainly due to REPO arrangements proceeds in 3Q 2017.

Net cash flow from financing activities decreased by HRK 131 million or 17.9%. Excluding Crnogorski Telekom, cash flow decreased by HRK 69 million mainly due early repayment of financial lease.

3.6 HT Group capital expenditure

HT Grupa including Crnogorski Telekom

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
CAPEX	977	1.250	28,0%	332	427	28,5%
CAPEX / Revenue ratio	18,8%	21,6%	2,8 p.p.	18,6%	20,4%	1,8 p.p.

Crnogorski Telekom

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Crnogorski Telekom	0	96	-	0	31	-

Capital expenditure realization in 3Q 2017 increased by HRK 273 million or 28.0% including contribution of Crnogorski Telekom in amount of HRK 96 million compared to the 3Q 2016. Without this effect, capital expenditure realization in 3Q 2017 increased by HRK 177 million or 18.1% to HRK 1,155 million in comparison to 3Q 2016 mostly due higher investment related to capitalization of contracts for TV content, IT transformation and 4G rollout.

In order to achieve the Digital Agenda 2020 targets, NGA is enabled for 57% of Croatian households with a speed >30Mbps and 18% with speed >100Mbps. Optical access network (FTTx) is available for 345 thousand households.

After implementation of Roam like at home regulative and Stream on service, roaming traffic increased for 300% during tourist season with 79% increase of total traffic volume in comparison to the same period in 2016. Significant traffic and capacity increase in mobile network is achieved.

In mobile network, "indoor" 4G population coverage is 75% (increase of 7 p.p. from the end of 2016) and "outdoor" coverage reached 98%. Until 3Q 2017, 573 LTE services was implemented which is 27% increase from the end of 2016.

Implementation of 4G speed increase to 262.5 Mbps download speeds continued to population coverage of 47%.

Intensive activities on the modernization of the local aggregation network continued in order to increase throughput, reliability and stability of service and increase the quality of service to the end user. By the end of 3Q, 70% of devices have been replaced. As one of the prerequisites of continuing aggregation devices migration, by the end of 3Q, 30% of DWDM network has been modernized in the Istria and Dalmatia area.

Hybrid Access Service exclusively for fixed customers with maximum speed not exceeding 4 Mbps has been implemented enabling increase of access speed up to 30 Mbps simultaneously using fixed and mobile network.

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

Note: 3Q 2016 is not consolidated into HT Group accounts. 3Q 2016 Data is presented for illustrative purposes to indicate key trends in Crnogorski Telekom performance versus 3Q 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	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Mobile revenue	32.6	32.2	-1.1%	12.3	12.3	-0.7%
Fixed revenue	33.2	28.8	-13.4%	11.0	9.7	-11.3%
System solutions	3.6	3.1	-14.9%	1.5	0.8	-44.5%
Revenue	69.4	64.0	-7.7%	24.9	22.9	-8.0%
EBITDA before EI	24.0	22.6	-5.8%	9.0	8.6	-5.0%
Capex	9.9	12.8	29.2%	4.6	4.0	-12.1%

Key operational data	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Mobile customers in 000	369	370	0.3%	369	370	0.3%
- Prepaid	190	167	-11.8%	190	167	-11.8%
- Postpaid	179	202	13.0%	179	202	13.0%
Fixed mainlines - retail in 000	140	127	-9.6%	140	127	-9.6%
Broadband access lines - retail in 000	73	70	-3.6%	73	70	-3.6%
TV customers in 000	60	57	-5.2%	60	57	-5.2%

Market pressure resulted with lower revenue realization by EUR 5.3 million or 7.7% in 3Q 2017 in comparison to 3Q 2016.

Mobile revenues declined compared to 3Q 2016 by EUR 0.4 million or 1.1%. Prepaid segment still represents challenge, and has declined compared to 3Q 2016 by EUR 1.2 million or 14.0%. Main drivers of prepaid decline are lower customer base by 11.8% as a result of main competitors focus on prepaid segment and lower ARPU by 8.7% mainly as a result of pre2post migrations.

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 0.3 million or 1.3% compared to 3Q 2016 driven by customer base growth of 13.0% supported with Magenta1 and with new standalone, more competitive and data oriented portfolio. Magenta1 achieved almost 15% of consumer households, while in business area there are more than 1.000 active accounts.

In 3Q 2017 visitor revenues increased due to extraordinary touristic season with roamers from wide range of countries and generated.

Although Crnogorski Telekom has market share leadership in fixed voice and broadband in Montenegrin market, fixed revenues declined compared to 3Q 2016 by EUR 4.4 million or 13.4%. Fixed voice decline continued due to regulatory pressure, ongoing fixed to mobile substitution, and lower customer base. Broadband and TV revenue below 3Q 2016, 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 decreased in 3Q 2017 by EUR 0.5 million or 14.9% in comparison to 3Q 2016 due to different project dynamic.

EBITDA before exceptional items decreased by EUR 1.4 million or 5.8% compared to 3Q 2016, following revenue development which was partially offset by lower material costs due to lower copyright fees as a result of realized TV content capitalization in Q4 2016 and H1 2017.

EBITDA margin before exceptional items in 3Q 2017 amounts to 35.3% and is above 3Q 2016 by 0.7 p.p. (3Q 2016: 34.6%).

Crnogorski Telekom Capex increased by EUR 2.9 million or 29.2% 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 consolidated unit.

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

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

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

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

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

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

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

Depreciation and amortization is not allocated to the segments.

5.1 Residential Segment

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Mobile revenue	1.396	1.443	3,3%	485	497	2,6%
Fixed revenue	1.385	1.335	-3,6%	463	443	-4,3%
Miscellaneous	29	27	-4,7%	9	8	-4,4%
Revenue	2.809	2.805	-0,1%	956	949	-0,8%
Operating expenses	874	896	2,5%	286	296	3,4%
Contribution to EBITDA before exceptional items	1.935	1.909	-1,3%	671	653	-2,6%

5.2 Business Segment

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Mobile revenue	721	796	10,3%	282	347	23,1%
Fixed revenue	811	794	-2,1%	279	251	-10,0%
System solution	461	479	3,8%	131	203	55,1%
Miscellaneous	50	85	71,1%	23	35	50,0%
Revenue	2.043	2.153	5,4%	715	836	16,9%
Operating expenses	998	1.129	13,1%	313	450	43,8%
Contribution to EBITDA before exceptional items	1.045	1.024	-2,0%	402	386	-4,0%

5.3 Network and support functions

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Other operating income	91	116	27,6%	23	59	158,9%
Operating expenses	1.133	1.070	-5,6%	383	358	-6,5%
Contribution to EBITDA before exceptional items	-1.042	-954	8,5%	-360	-299	16,9%

5.4. Segment Optima Telekom consolidated

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Fixed revenue	332	350	5,4%	111	138	25,2%
Revenue	332	350	5,4%	111	138	25,2%
Other operating income	1	3	98,5%	0	1	171,4%
Operating expenses	159	158	-0,6%	50	58	16,9%
Contribution to EBITDA before exceptional items	175	195	11,6%	61	82	33,1%

5.5. Segment Crnogorski Telekom consolidated

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Mobile revenue	0	239	-	0	92	-
Fixed revenue	0	214	-	0	72	-
System solution	0	23	-	0	6	-
Revenue	0	476	-	0	170	-
Other operating income	0	1	-	0	0	-
Operating expenses	0	308	-	0	105	-
Contribution to EBITDA before exceptional items	0	170	-	0	65	-

6. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue increased by HRK 118 million or 2.7% to HRK 4,559 million in 3Q 2017 when compared to 3Q 2016. Increase was driven by higher mobile revenue (HRK 122 million or 5.7%) coming from visitors and mobile handset revenue, miscellaneous revenue (HRK 33 million or 46.7%) coming from energy business and system solution revenue (HRK 14 million or 9.5%). This increase was partially offset with decrease in fixed revenue (HRK 51 million or 2.4%) mostly resulting from lower voice, compensated by higher wholesale and TV revenue.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 65 million or 3.3% to HRK 2,015 million in 3Q 2017, mainly as a result of higher revenue (HRK 118 million or 2.7%) and higher other operating income (HRK 25 million or 28.3%) driven by sales of fixed assets. This increase was partially offset by higher operating expenses (HRK 78 million or 3.0%) driven mainly by higher merchandise costs related to retention activities taken in mobile segment and growing system solution business.

Net profit after non controlling interests

Net profit after non controlling interests decreased by HRK 33 million or 4.5% to HRK 702 million in 3Q 2017. Decrease was primarily a result of higher depreciation and amortization (HRK 78 million or 8.4%) driven by electronic communication infrastructure assets as well as capitalization of content contracts, higher exceptional items (HRK 34 million or 57.1%) mainly related to restructuring redundancy costs, extraordinary impairment of receivables, legal cases and costs related to H1 Telekom consolidation and higher net financial loss (HRK 16 million or 29.7%). This was partially compensated by higher EBITDA before exceptional items (HRK 65 million or 3.3%) and lower taxation (HRK 29 million or 15.7%).

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 and H1 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)	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Mobile revenue	2.117	2.478	17,0%	767	936	22,1%
Fixed revenue	2.527	2.693	6,6%	852	905	6,2%
System solutions	461	501	8,7%	131	209	59,9%
Miscellaneous	78	112	43,3%	32	43	35,4%
Revenue	5.184	5.785	11,6%	1.782	2.094	17,5%
Other operating income	93	121	30,3%	23	60	159,3%
Total operating revenue	5.277	5.906	11,9%	1.805	2.154	19,3%
Operating expenses	3.227	3.663	13,5%	1.032	1.317	27,6%
Material expenses	1.508	1.736	15,1%	485	659	36,0%
Employee benefits expenses	725	769	6,0%	222	255	14,7%
Other expenses	1.028	1.149	11,7%	341	385	13,2%
Work performed by the Group and capitalised	-64	-91	41,3%	-20	-45	118,6%
Write down of assets	29	100	242,1%	5	63	1102,9%
EBITDA	2.050	2.243	9,4%	773	837	8,2%
Depreciation and amortization	1.038	1.255	20,9%	347	431	23,9%
EBIT	1.012	988	-2,4%	426	406	-4,7%
Financial income	35	31	-11,4%	5	2	-72,4%
Income/loss from investment in joint ventures	4	6	51,3%	6	5	-8,6%
Financial expenses	123	138	12,6%	25	24	-3,4%
Profit before taxes	928	887	-4,5%	412	388	-5,7%
Taxation	184	161	-12,7%	79	71	-10,3%
Net profit	744	726	-2,5%	333	318	-4,6%
Non controlling interests	-8	-9	19,5%	-2	-7	279,1%
Net profit after non controlling interests	752	735	-2,2%	335	325	-2,9%
Exceptional items ¹⁾	62	102	63,3%	1	50	8671,4%
EBITDA before exceptional items	2.112	2.345	11,0%	774	887	14,6%

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

9.2 Consolidated Balance Sheet

in HRK million	At 31 Dec 2016	At 30 Sep 2017	% of change A17/A16
Intangible assets	1.738	2.463	41,8%
Property, plant and equipment	5.619	6.237	11,0%
Non-current financial assets	1.352	1.336	-1,2%
Receivables	121	210	73,7%
Deferred tax asset	59	57	-4,2%
Total non-current assets	8.889	10.302	15,9%
Inventories	111	144	29,5%
Receivables	1.327	1.659	25,0%
Current financial assets	1.189	159	-86,6%
Cash and cash equivalents	2.676	2.876	7,5%
Prepayments and accrued income	262	122	-53,4%
Total current assets	5.566	4.960	-10,9%
TOTAL ASSETS	14.455	15.263	5,6%
Subscribed share capital	9.823	9.817	-0,1%
Reserves	492	470	-4,5%
Revaluation reserves	2	6	155,8%
Retained earnings	633	1.061	67,7%
Net profit for the period	934	735	-21,3%
Non controlling interests	163	434	166,2%
Total issued capital and reserves	12.046	12.523	4,0%
Provisions	53	61	15,1%
Non-current liabilities	472	590	24,8%
Deferred tax liability	35	48	35,7%
Total non-current liabilities	561	699	24,6%
Current liabilities	1.741	1.942	11,5%
Deferred income	89	97	9,1%
Provisions for redundancy	17	2	-88,8%
Total current liabilities	1.847	2.041	10,5%
Total liabilities	2.408	2.740	13,8%
TOTAL EQUITY AND LIABILITIES	14.455	15.263	5,6%

9.3 Consolidated Cash Flow Statement

in HRK million	3Q 2016	3Q 2017	% of change A17/A16	Q3 2016	Q3 2017	% of change A17/A16
Profit before tax	928	887	-4,5%	412	388	-5,7%
Depreciation and amortization	1.038	1.255	20,9%	347	431	23,9%
Increase / decrease of current liabilities	-141	64	145,6%	-14	19	243,1%
Increase / decrease of current receivables	68	8	-87,5%	74	-20	-126,4%
Increase / decrease of inventories	-32	-60	-88,8%	-16	-16	-0,5%
Other cash flow increases / decreases	-217	-267	-23,0%	-94	-145	-54,3%
Net cash inflow/outflow from operating activities	1.644	1.887	14,8%	710	657	-7,4%
Proceeds from sale of non-current assets	46	91	96,9%	2	64	2719,1%
Proceeds from sale of non-current financial assets	1	1	-2,8%	0	0	-16,1%
Interest received	13	7	-42,0%	3	2	-46,4%
Dividend received	3	0	-100,0%	0	0	-
Other cash inflows from investing activities	1.121	1.306	16,4%	130	-1.100	-945,6%
Total increase of cash flow from investing activities	1.185	1.405	18,7%	136	-1.034	-859,5%
Purchase of non-current assets	-957	-1.080	-12,8%	-261	-379	-45,3%
Purchase of non-current financial assets	-75	-924	-	0	0	-
Other cash outflows from investing activities	-1.156	-266	77,0%	-375	978	360,7%
Total decrease of cash flow from investing activities	-2.187	-2.270	-3,8%	-636	599	194,1%
Net cash inflow/outflow from investing activities	-1.003	-865	13,8%	-500	-435	12,9%
Total increase of cash flow from financing activities						
Repayment of loans and bonds	-14	-57	-304,7%	0	0	-100,0%
Dividends paid	-491	-493	-0,4%	0	0	-5773,5%
Repayment of finance lease	-7	-52	-	-3	-1	73,8%
Other cash outflows from financing activities	-219	-260	-18,9%	-64	-118	-84,5%
Total decrease in cash flow from financing activities	-731	-862	-17,9%	-67	-119	-78,3%
Net cash inflow/outflow from financing activities	-731	-862	-17,9%	-67	-119	-78,3%
Exchange gains/losses on cash and cash equivalents	-13	-19	-50,3%	13	3	-75,1%
Cash and cash equivalents at the beginning of period	3.175	2.734	-13,9%	0	0	-
Net cash (outflow) / inflow	-103	141	237,9%	156	106	-32,2%
Cash and cash equivalents at the end of period	3.072	2.876	-6,4%	156	106	-32,2%

9.4 Consolidated EBITDA reconciliation

in HRK million	3Q 2016	3Q 2017	% of change <i>A17/A16</i>	Q3 2016	Q3 2017	% of change <i>A17/A16</i>
Segment Result (Contribution to EBITDA)						
Residential Segment	1.935	1.909	-1,3%	671	653	-2,6%
Business Segment	1.045	1.024	-2,0%	402	386	-4,0%
Network and Support Functions	-1.042	-954	8,5%	-360	-299	16,9%
Segment Optima consolidated	175	195	11,6%	61	82	33,1%
Segment Crnogorski telekom consolidated	0	170	-	0	65	-
Total Contribution to EBITDA before exceptional items of the Segments	2.112	2.345	11,0%	774	887	14,6%
Exceptional items	62	102	63,3%	1	50	8671,4%
Total EBITDA	2.050	2.243	9,4%	773	837	8,2%

9.5 Notes to the condensed consolidated financial statements for the nine months ended on 30 September 2017

Basis of preparation

The condensed consolidated financial statements as of 30 September 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/> 1,385
Liabilities	
Long-term liabilities	20
Trade payables	249
Other liabilities and accrued expenses	94
Deferred tax liability	35
	<hr/> 398
Total identifiable net assets at fair value	<hr/> 987
Non-controlling interest	<hr/> (232)
Goodwill arising on acquisition using predecessor accounting method	157
Difference recognised ion equity	12
Purchase consideration transferred	<hr/> <hr/> 924

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.

Q3 2017 results include contribution of H1 Telekom d.d. after approval of merger process that resulted with consolidation of H1 Telekom d.d. into the OT - Optima Telekom d.d. For segment reporting purposes contribution of H1 is included in segment Optima consolidated.

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 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 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 Other 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 Group achievements.

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

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

Depreciation and amortisation is not allocated to the segments, except the part related to Optima Telekom and Crnogorski 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 September 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	2.809	2.043	-	332	-	5.184
Mobile revenue	1.396	721	-	-	-	2.117
Fixed revenue	1.384	811	-	332	-	2.527
System solutions revenue	-	461	-	-	-	461
Miscellaneous revenue	29	50	-	-	-	79
Usage related direct costs	(155)	(159)	-	(73)	-	(387)
Income and losses on accounts receivable	(5)	(18)	-	(3)	-	(26)
Contribution margin I	2.649	1.866	-	256	-	4.771
Non-usage related direct costs	(436)	(564)	-	(7)	-	(1.007)
Segment result	2.213	1.302	-	249	-	3.764
Other income	-	-	91	1	-	92
Other operating expenses, restated	(292)	(269)	(1.169)	(76)	-	(1.806)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(967)	(71)	-	(1.038)
Operating profit, restated	1.921	1.033	(2.045)	103	-	1.012

Period 1 July to 30 September 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	956	715	-	111	-	1.782
Mobile revenue	485	282	-	-	-	767
Fixed revenue	462	279	-	111	-	852
System solutions revenue	-	131	-	-	-	131
Miscellaneous revenue	9	23	-	-	-	32
Usage related direct costs	(51)	(62)	-	(25)	-	(138)
Income and losses on accounts receivable	(4)	1	-	(1)	-	(4)
Contribution margin I	901	654	-	85	-	1.640
Non-usage related direct costs	(140)	(168)	-	(1)	-	(309)
Segment result	761	486	-	84	-	1.331
Other income	-	-	22	-	-	22
Other operating expenses, restated	(89)	(84)	(383)	(24)	-	(580)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(322)	(25)	-	(347)
Operating profit, restated	672	402	(683)	35	-	426

Period ended 30 September 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	2.806	2.153	-	350	476	5.785
Mobile revenue	1.443	796	-	-	239	2.478
Fixed revenue	1.336	794	-	350	214	2.694
System solutions revenue	-	478	-	-	23	501
Miscellaneous revenue	27	85	-	-	-	112
Usage related direct costs	(146)	(177)	-	(61)	(42)	(426)
Income and losses on accounts receivable	(28)	(59)	-	(2)	(7)	(96)
Contribution margin I	2.632	1.917	-	287	427	5.263
Non-usage related direct costs	(463)	(659)	-	(9)	(75)	(1.206)
Segment result	2.169	1.258	-	278	352	4.057
Other income	-	-	116	3	1	120
Other operating expenses	(266)	(300)	(1.091)	(90)	(187)	(1.934)
Depreciation, amortization and impairment of non-current assets	-	-	(1.055)	(78)	(122)	(1.255)
Operating profit	1.903	958	(2.030)	113	44	988

Period 1 July to 30 September 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	949	836	-	139	170	2.094
Mobile revenue	497	347	-	-	91	935
Fixed revenue	444	251	-	139	73	907
System solutions revenue	-	203	-	-	6	209
Miscellaneous revenue	8	35	-	-	-	43
Usage related direct costs	(49)	(72)	-	(20)	(16)	(157)
Income and losses on accounts receivable	(14)	(46)	-	-	(3)	(63)
Contribution margin I	886	718	-	119	151	1.874
Non-usage related direct costs	(152)	(283)	-	(5)	(23)	(463)
Segment result	734	435	-	114	128	1.411
Other income	-	-	58	2	-	60
Other operating expenses	(81)	(94)	(359)	(37)	(64)	(635)
Depreciation, amortization and impairment of non-current assets	-	-	(360)	(29)	(41)	(430)
Operating profit	653	341	(661)	50	23	406

Relations with the governing company and its affiliated companies

In the nine 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 nine 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 nine months of 2017.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first nine 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 nine months of 2017 the Group generated total revenue from related companies from international traffic to the amount of HRK 107 million (the first nine months of 2016: HRK 84 million), while total costs of international traffic amounted to HRK 84 million (the first nine months of 2016: HRK 67 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 2million in the nine months of 2017 (the first nine months of 2016: HRK 5 million).

Compensation of the Supervisory Board

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

In the first nine months of 2017 the Company paid a total amount of HRK 0.7 million (the first nine months of 2016: HRK 0.6 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first nine months of 2017 the total compensation paid to key management personnel of the Group amounted to HRK 41 million (first nine months of 2016: HRK 30 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 nine 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, 26 October 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 to “H1” are to H1 Telekom, the company fully consolidated into Optima’s and Group’s financial statements as of 1 July 2017.

References in this publication to “Agency” are to the Croatian 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