



Zagreb – 28 April 2017

Hrvatski Telekom Results for the three months ended 31 March 2017

Hrvatski Telekom – Growth of revenue, EBITDA and net profit in the first quarter

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited results for the three months ended 31 March 2017.

The consolidation of Montenegro's Crnogorski Telekom in January of this year had a positive impact on the results of Hrvatski Telekom; in the first three months of 2017, total revenue increased by 8.7% compared to the same period of the previous year and amounts to HRK 1,818 million. In addition to the contribution of Crnogorski Telekom, revenue shows an increase in the key segments: mobile operations, broadband access and television, wholesale and energy. Taking into account the various project dynamics in comparison to the first quarter of 2016, this year's first quarter saw certain deviation in system solutions revenue achievement.

EBITDA before exceptional items increased by 7.4% to HRK 674 million compared to the previous year, along with an EBITDA margin at a level of 37.1%, which is a decrease by 0.4 percentage points compared to the same period of the previous year. Excepting the contribution by Crnogorski Telekom, EBITDA before exceptional items increased by 0.2% and amounts to HRK 628 million with a 37.6% EBITDA margin.

In the first quarter, net profit increased by 9.5% and amounts to HRK 149 million. Excepting the contribution by Crnogorski Telekom, net profit increased by 6.8% and amounts to HRK 145 million.

Significant investment in optical infrastructure and the 4G mobile network

Hrvatski Telekom continues to make substantial investments, and capital investments increased by 16.6%, including the contribution by Crnogorski Telekom. Without this effect, realisation of capital investments in the first quarter increased by 9.7% compared to the same period of the previous year and amounts to HRK 344 million, which continues to be twice as much as all other operators combined.

4G mobile network indoor coverage is 71.8% of the population, which is an increase by 3.6 percentage points, while outdoor coverage reached 97.6% - an increase by 0.7 percentage points compared to the end of 2016. 4G mobile network coverage at a download speed of up to 225 Mbit/s has been increased by a further 2 percentage points, to 52% compared to the end of 2016.

Until the end of the first quarter of 2017, fibre optic access in the fixed network was enabled for an additional 15,000 households, meaning that a total of 825,000 Croatian households are now covered by the new generation access.

The new, unique concept of service offering on the telecommunications market, Magenta 1, launched in H1 2016, was accepted by more than 67 thousand households, which is a testimony to the value of this concept of top-notch customer experience and benefits.

Commenting on the business results of the first quarter of 2017, **Davor Tomašković, President of the Management Board of Hrvatski Telekom**, said: *“In the first quarter of 2017, Hrvatski Telekom continues with the trend of increasing key financial indicators and is on a stable path of growth. In the next months, we will focus on further investment in our infrastructure. This way, we will ensure HT’s technological superiority and innovative services as the basic prerequisites to the best customer experience and premium position on the market.*

Furthermore, together with Crnogorski Telekom, we are creating the prerequisites to changes in this company, which is the first step of HT to the regional market. In the first quarter, Crnogorski Telekom has already taken steps that are necessary for transformation of the company and for stabilisation of financial indicators. We believe that the redesign of the organisation and the action plan for realisation of synergy effects in the areas of procurement, wholesale and market appearance will substantially contribute to positive changes and to the fastest possible return of Crnogorski Telekom to the path of growth.”

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A conference call for analysts and investors will be held at 12:00 UK time / 13:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In

+44 (0) 1452 555 566

Conference ID

11987570

A replay of the call will be available until Friday, 5 May 2017 using the following details:

International Dial In

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A presentation covering results for the first three 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 1Q 2017

HT Group has successfully responded to market challenges and continued to lead the Croatian telecommunications market across all business segments in 1Q 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 Market overview

Key market trends: market consolidation goes on; investments in network and increased user demand drive data growth

The consolidation activities in the telecommunications market are going on. In February 2017, Croatian Competition Agency announced a three-month extension to its review of the proposed merger between Optima Telekom and H1 Telekom. Vipnet has completed the acquisition of Metronet in February 2017.

Croatian mobile market has been determined by strong competition and regulatory measures that impact mobile revenue. Estimated mobile SIM penetration rate was 114.0% at the end of March 2017. The Company keeps leading market position with estimated mobile SIM market share of 47.0%.

All three mobile operators offer 4G services with favourable data packages and attractive gadgets that additionally encourage usage of data. As a result, the total number of sent SMS messages continued to decrease on annual basis by 8.9% in 2016 and total mobile market minutes of use (MOU) grew by 1.6% in the same period.¹ On the other hand, total broadband traffic grew by 38.3% in 2016 compared to the total traffic in 2015.⁴

Total fixed originating voice minutes continued to decline by 8.1% on yearly level in 2016.⁴

Croatian fixed broadband market continued to grow yearly by 5.8% in Q4 2016, reaching more than 1,044 thousand fixed broadband connections.⁴ The share of fixed high-speed broadband (>30Mbps) connections grew from 6% in Q4 2015 to 12% in Q4 2016. This is a result of fixed operators' higher investments in network and increased user demand for high-speed internet access service.²

HT Group has set a strong focus on further development of the network infrastructure, increasing broadband access capacity and availability to maintain a leading position in Croatia. HT Group had 621 thousand of broadband access lines at the end of March 2017.

The Croatian Pay TV market continues with growth in 2016, reaching 796 thousand customers in Q4 2016 (+3.8% on yearly level).⁵

¹ Source: Croatian Post and Electronic Communications Agency

² Source: Croatian Post and Electronic Communications Agency's quarterly report for Q4 2016, March 2017

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in 2016 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 142 thousand at the end of March 2017, which is increase of 23.4% compared to the same period last year. Due to high churn and migration to broadband services (NBSA), number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing which resulted with 144 thousand of ULL access and 76 thousand of WLRs at the end of March 2017.

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

IT market

According to the first preliminary results prepared by IDC Adriatics, the Croatian IT market grew by 1.7% in 2016, slower than expected. The strongest growth was in Software (4.9%) followed by IT services (4.4%). Hardware market declined in 2016 (-0.9%)³.

The Croatian IT market is expected to grow on yearly basis by 2.4% in 2017 driven by growth in Software (8.6%) and IT services (6.9%), while Hardware is expected to decline (-2.2%).⁶

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

Energy market

The market price in 1Q 2017 was influenced by extremely tough winter and historically low temperatures. That effect was passed through to bottom line as lower profit margin. At the very end of calendar year 2016 Croatian Government ceased a part of "Renewables Law" which sets suppliers free of obligation to buy green energy at premium price. That is manifested as an additional cost. In residential segment, certain improvements in regulatory environment are ahead, after which significant penetration will be possible. Unlike all other energy suppliers, who are running business as primary activity, HT is seeking to exploit synergy effect from telco-energy convergent proposition.

1.3 Economic background

Economic growth to continue in 2017

After moderate growth by 1.6% in 2015, the Croatian GDP's growth accelerated in 2016 to 2.9% yearly growth rate.⁴ The strong growth momentum gathered in the second half of 2016 is projected to

³ Source: IDC Adriatics, April 2017

⁴ Source: Croatian Bureau of Statistics

carry over to 2017. Private consumption is expected to benefit from tax cuts and expand by 3.4% in 2017. EU investment funds are expected to provide an additional boost to public investment. Those are all drivers for further economic growth in 2017.⁵

The registered unemployment rate keeps decreasing trend. In 2016 registered unemployment rate stood at 15.0% (down by 2pp in annual terms). Reported registered unemployment rate for February 2017 was 15.3% (down by 2.5pp in annual terms).⁶ Besides new employment, continued shrinking of the labour force additionally reduces the unemployment rate in 2017.

Reported average net income for January 2017 amounted to HRK 5,895 (up by 3.5pp on yearly level, in real terms)³. Average annual inflation rate in February 2017, calculated by Consumer Prices Index (CPI), was 1.4% higher than in February 2016³.

1.4 Regulatory environment

Public consultation regarding the draft amendments to the Electronic Communications Act

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

1.5 Changes in reporting

Optima Telekom

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

⁵ Source: European Commission, "Winter 2017 Economic Forecast for Croatia", February 2017

⁶ Source: Croatian Bureau of Statistics

Crnogorski Telekom (CT)

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

In order to transparently present Crnogorski Telekom business development in Q1 2017, besides “Segment Crnogorski Telekom consolidated”, we present also “Crnogorski Telekom stand-alone financial and non-financial highlights” to explain business development in Q1 2017 versus Q1 2016 when CT was not consolidated. The operational and financial highlights of HT Group without Crnogorski Telekom consolidation are presented under the “HT Croatia” section.

1.6 Summary of key financial indicators

HT Group (including Crnogorski Telekom), in HRK million

INCOME STATEMENT	1Q 2016	1Q 2017	% of change A17/A16
Revenue	1,673	1,818	8.7%
Mobile	655	745	13.7%
Fixed voice	247	241	-2.4%
Broadband & TV	324	358	10.5%
Fixed wholesale	85	102	21.0%
Other fixed	177	196	10.8%
System solutions	165	141	-14.7%
Miscellaneous	21	35	66.8%
EBITDA before exceptional items	627	674	7.4%
Exceptional items	59	32	-45.5%
EBITDA after exceptional items	568	641	13.0%
EBIT (Operating profit)	219	229	4.4%
Net profit after non controlling interests	136	149	9.5%
EBITDA margin before exceptional items	37.5%	37.1%	-0.4 p.p.
EBITDA margin after exceptional items	33.9%	35.3%	1.3 p.p.
EBIT margin	13.1%	12.6%	-0.5 p.p.
Net profit margin	8.1%	8.2%	0.1 p.p.

BALANCE SHEET	At 31 Dec 2016	At 31 Mar 2017	% of change A17/A16
Total non current assets	8,889	10,013	12.6%
Total current assets	5,566	5,012	-10.0%
TOTAL ASSETS	14,455	15,025	3.9%
Total issued capital and reserves	12,046	12,387	2.8%
Total non current liabilities	561	619	10.3%
Total current liabilities	1,847	2,019	9.3%
TOTAL EQUITY AND LIABILITIES	14,455	15,025	3.9%

CASH FLOW	1Q 2016	1Q 2017	% of change A17/A16
Net cash flow from operating activities	575	653	13.6%
Net cash flow from investing activities	1	-624	-
Net cash flow from financing activities	-69	-175	-155.3%
Cash and cash equivalents at the end of period	3,654	2,576	-29.5%

CAPEX	1Q 2016	1Q 2017	% of change A17/A16
CAPEX	314	366	16.6%
CAPEX / Revenue ratio	18.8%	20.1%	1.4 p.p.

NUMBER OF EMPLOYEES	At 31 Mar 2016	At 31 Mar 2017	% of change A17/A16
Number of employees (FTEs)	4,488	4,885	8.8%

RESIDENTIAL SEGMENT	1Q 2016	1Q 2017	% of change A17/A16
Revenue	914	919	0.6%
Contribution to EBITDA before exceptional items	624	612	-2.0%
BUSINESS SEGMENT	1Q 2016	1Q 2017	% of change A17/A16
Revenue	651	643	-1.3%
Contribution to EBITDA before exceptional items	305	309	1.4%
NETWORK & SUPPORT FUNCTIONS	1Q 2016	1Q 2017	% of change A17/A16
Contribution to EBITDA before exceptional items	-355	-350	1.5%
SEGMENT OPTIMA CONSOLIDATED	1Q 2016	1Q 2017	% of change A17/A16
Revenue	108	108	-0.3%
Contribution to EBITDA before exceptional items	54	57	6.7%
SEGMENT CRNOGORSKI TELEKOM CONSOLIDATED	1Q 2016	1Q 2017	% of change A17/A16
Revenue	n/a	148	n/a
Contribution to EBITDA before exceptional items	n/a	46	n/a

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Three months to 31 Mar 2016	7.62	7.52	6.91	6.65
Three months to 31 Mar 2017	7.47	7.44	7.01	6.93

2. Business Review

HT Croatia, in HRK million

INCOME STATEMENT	1Q 2016	1Q 2017 wo CT	% of change A17 wo CT/A16
Revenue	1,673	1,670	-0.2%
Mobile	655	675	3.1%
Fixed voice	247	220	-11.0%
Broadband & TV	324	327	1.1%
Fixed wholesale	85	98	15.4%
Other fixed	177	181	2.3%
System solutions	165	134	-18.8%
Miscellaneous	21	35	66.8%
EBITDA before exceptional items	627	628	0.2%
Exceptional items	59	32	-45.5%
EBITDA after exceptional items	568	596	5.0%
EBIT (Operating profit)	219	224	2.1%
Net profit after non controlling interests	136	145	6.8%
EBITDA margin before exceptional items	37.5%	37.6%	0.0 p.p.
EBITDA margin after exceptional items	33.9%	35.7%	0.1 p.p.
EBIT margin	13.1%	13.4%	0.0 p.p.
Net profit margin	8.1%	8.7%	0.1 p.p.

Key operational data	1Q 2016	1Q 2017	% of change A17/A16
Mobile customers in 000			
Number of customers	2,206	2,210	0.2%
- Prepaid	1,087	1,045	-3.8%
- Postpaid	1,119	1,165	4.1%
Minutes of use (MOU) per average customer	196	209	6.3%
Blended ARPU (monthly average for the period in HRK)	74	75	1.4%
- Prepaid	40	40	1.1%
- Postpaid	108	107	-0.9%
SAC per gross add in HRK	102	147	43.3%
Churn rate (%)	2.6	2.6	0.0 p.p.
Penetration (%) ¹⁾	113	114	1.4 p.p.
Market share of customers (%) ¹⁾	47	47	0.0 p.p.
Smartphone customers (%) ²⁾	55	55	0.4 p.p.
Smartphones sold (%) ³⁾	80	80	0.0 p.p.

¹⁾ Source: internal estimation of the competitors customers for EO March 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	1Q 2016	1Q 2017	% of change A17/A16
Fixed mainlines in 000			
Fixed mainlines - retail ¹⁾	955	911	-4.6%
Fixed mainlines - wholesale (WLR - wholesale line rental)	101	76	-24.7%
ARPU voice per user (monthly average for the period in HRK) ²⁾	86	80	-6.7%
IP mainlines/customers in 000			
Broadband access lines - retail ³⁾	601	621	3.3%
Broadband access lines - wholesale ⁴⁾	115	142	23.4%
TV customers	387	408	5.3%
Broadband retail ARPU (monthly average for the period in HRK)	121	118	-2.7%
TV ARPU (monthly average for the period in HRK)	81	81	-0.1%
Wholesale customers in 000			
ULL (Unbundled Local Loop)	156	144	-7.7%

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

²⁾ Payphones excluded,

³⁾ Includes ADSL, VDSL, FTTH and Naked DSL

⁴⁾ Includes Naked Bitstream + Bitstream

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

HT Group highlights:

- Significant efforts taken to maintain position in the market
 - HT managed to keep the leading mobile market share with stable estimated portion of 47.0%
 - Magenta1 as fixed and mobile convergent offer defines trend of new market drive as a unique concept of integrated services
- The main financial KPIs growing under influence of Crnogorski Telekom
 - Revenue is above 1Q 2016 by HRK 145 million or 8.7%. Excluding CT contribution of HRK 148 million, revenue slightly below by HRK 3 million or 0.2%.
 - EBITDA is above 1Q 2016 by HRK 47 million or 7.4%. Excluding CT contribution of HRK 45 million, EBITDA is above HRK 1 million or 0.2%

- Capex realization is above 1Q 2016 by HRK 52 million or 16.6%. Excluding CT contribution of HRK 22 million, Capex is above by HRK 30 million or 9.7%
- Transformation continued in 1Q 2017
 - Transformation program Horizont 2017 is established according to HT Strategy 2020 directions aiming to become regional telco and digital market leader.
- Significant investment in network driven by integrated network strategy and regulatory demand
 - 4G population coverage of download up to 225 Mbps increased to 52% of population; rollout of 262.5 Mbps download speeds continues, covering 4% of population
 - "Indoor" 4G population coverage increased up to 71.8% , "Outdoor" coverage increased to 97.6%.
 - Activities continued for achieving Digital Agenda 2020 targets, progress achieved in increasing coverage of NGA access that is now available for 55% of Croatian households
 - FTTx access is enabled for 310 thousand households
 - In Crnogorski Telekom broadband access expansion continued, "Outdoor" 4G coverage increased to 95%, FTTH rollout in progress
- New source of growing potential
 - System solution is the strongest in the area of customized ICT solutions and IP communication recording revenue in amount of HRK 141 million in 1Q 2017
 - Energy is establishing as a sustainable business recording revenue growth of 74.8% in comparison to 1Q 2016
 - Consolidation of Crnogorski Telekom contributed to HT Group with revenue realization in 1Q 2017 in amount of HRK 148 million

Mobile telecommunications

Mobile customer base slightly increased by 0.2%, to 2,210 thousand customers at the end of 1Q 2017 in comparison to 1Q 2016 mainly as a result of great overall performance of postpaid under influence of Magenta1 offers, Bonbon campaigns and M2M growth, which was partially offset by lower prepaid segment performance.

Number of postpaid customers was higher by 4.1% than at the end of 1Q 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.

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 our

customers to be with their kids even when they are not together through connected MyKi watch and mobile app for tracking.

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

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

Number of prepaid customers was 3.8% lower than in 1Q 2016 due to overall decline of prepaid market and strong competition. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

In 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 Mbp/s, option which allows you to transfer MB/MIN/SMS from your "Zmajaska" option to other Simpa customer account, and "Zmajaska" keyboard free of charge.

Bonbon continued with bringing its customers additional value, through 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. 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.

Minutes of usage per average customer in 1Q 2017 increased by 6.3% compared to 1Q 2016 and blended ARPU increased by 1.4% as a result of postpaid segment overperformance.

Fixed line

By the end of 1Q 2017, total fixed access mainlines of 911 thousand were by 4.6% lower than at the end of 1Q 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 Q1 which includes MAXtv with additional packages and flat fixed voice minutes towards all fixed and mobile networks for only HRK 169 per month.

Fixed voice ARPA decreased by 6.7% compared to 1Q 2016 as a result of mentioned general market trends.

Broadband

At the end of 1Q 2017 broadband customer base was higher by 3.3% in the comparison to the end of 1Q 2016 reaching 621 thousand, due to Magenta1 and elderly proposition offers results.

At the same time broadband retail ARPA was 2.7% below 1Q 2016 at the level of HRK 118 due to stronger competition and aggressive offers in the market. HT continues with push of Ultra MAX packages on FTTH. The offer was accompanied by attractive MyKi smartwatch for children security for only HRK 1, discounts for energy service and MAXtv for all new Ultra MAX customers for HRK 1 for first 9 months of usage with MCD 24. These packages are based on FTTH technology which enables ten times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones.

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

TV

TV customer base showing 5.3% increase from 1Q 2016 is at the level of 408 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 in line with 1Q 2016 at a level of HRK 81.

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 1Q 2017 there were 144 thousands of active ULL lines, which was lower by 7.7% in comparison to same period last year. Number of ULL lines decreased due to higher focus of alternative operators to broadband services.

Broadband wholesale access lines (BSA and naked BSA lines) reached 142 thousands at the end of 1Q 2017, which was 23.4% above number of last year realization with driver being high increase of number of naked BSA lines.

Number of WLR lines at the end of period decreased by 24.7% compared to previous year and reached 76 thousands as a result of declining voice market and migration to broadband services.

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

In 2017 successful sales continued in spite of competitive domestic wholesale market of data and IP services. Especially successful was sale of IP upstream services with growth of 5.3% in volume comparing to the same period last year.

In the international wholesale market total capacity of sold IP increased by 17.5% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2017, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 23.6% more voice originating minutes and 155.4% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 83.6% more roaming voice traffic in foreign countries and 180.9% more data traffic. During 1Q 2017, additional 4G (LTE) international roaming services with foreign partners were set up reaching 113 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 16.5% in 1Q 2017 compared to the 1Q 2016. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 14.0% and from HT mobile network users increased by 40.1%.

System solutions

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

HT launched Second flight of Magenta1 Business Communication campaign with the goal to further position HT as One-Stop-Shop for business customers. In addition, new offer for Fiscal Cash register service was introduced as Hard-sell offer in the Campaign with the goal to monetize on Fiscal Cash register service.

Energy

Revenues from energy were higher by HRK 14 million or 74.8% when compared to 1Q 2016 due to higher number of business customers by 41.4%. 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 145 million or 8.7% to HRK 1,818 million in 1Q 2017 in comparison to 1Q 2016. Crnogorski Telekom contributed with HRK 148 million. Excluding Crnogorski Telekom, revenue is slightly below 1Q 2016 by HRK 3 million or 0.2%. Slight decrease is driven by lower realization in system solution revenue (HRK 31 million or 18.8%) and fixed revenue (HRK 6

million or 0.8%), partially offset by higher mobile revenue (HRK 21 million or 3.1%) and miscellaneous revenue (HRK 14 million or 66.8%).

Optima Telekom contribution to HT Group was slightly below by HRK 4 million in comparison to 1Q 2016 and amounted to HRK 71 million in 1Q 2017. Contribution consisted of HRK 108 million of Optima Telekom third party contribution (1Q 2016: HRK 108 million) that was presented in the whole amount under fixed other revenue and HRK 37 million of inter-company relations that decreased mainly fixed wholesale revenue (1Q 2016: HRK 34 million).

Contribution of subsidiaries in Group revenue in 1Q 2017 amounted for Iskon HRK 97 million (1Q 2016: HRK 94 million) and for Combis HRK 82 million (1Q 2016: HRK 116 million).

Mobile revenue

Mobile revenue rose by HRK 90 million or 13.7% to HRK 745 million in 1Q 2017 in comparison to 1Q 2016. Crnogorski Telekom contributed with HRK 69 million. Excluding Crnogorski Telekom, mobile revenue is above 1Q 2016 by HRK 21 million or 3.1%. The growth resulted mainly from higher handset revenue, postpaid revenue and visitor revenue, while other mobile revenue decreased as well as prepaid revenue.

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

Postpaid revenue increased primarily due to higher mobile data revenue as both number of subscribers (6.9%) and usage increased as a result of continuous substitution trend of traditional services with data, higher number of data traffic included in tariff bundles and increasing share of customers having smartphones. Due to better tariff mix in "Najbolja" tariff offers, there is higher SMS revenue and it is partially offset by decline in voice revenue.

Visitor revenue increased due to higher usage.

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

Prepaid revenue decrease was a result of lower MTC and retail revenue. Decrease in MTC revenue came from lower SMS usage. The retail prepaid was lower due to lower voice and SMS revenue which are only partially compensated by mobile data growth as a result of continuous promotional offers with focus on data traffic and 4G speed (Bonbon increase of GB in offers, "Moćni noćni" package and Simpa "Zmajaska opcija"). Customer base decreased (3.8%) in line with market trends.

Fixed revenue

Fixed revenue increased by HRK 65 million or 7.8% to HRK 897 million in 1Q 2017 in comparison to 1Q 2016. Crnogorski Telekom contributed with HRK 71 million. Excluding Crnogorski Telekom, fixed revenue decreased by HRK 6 million or 0.8%.

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

In 1Q 2017, fixed line voice retail revenue decreased in comparison to 1Q 2016 mainly as a result of continuous decline in the number of revenue producing fixed mainlines (4.6%) due to ongoing fixed to mobile substitution trend coming from strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment. Consequently, number of minutes dropped and ARPU voice declined by 6.7%. ARPU decline is under influence of more low value residential customers using fixed voice services (mostly elderly population).

Fixed wholesale revenue increased mainly due to network infrastructure revenue driven by higher quantity of NBSA by 53.9% and new regulated price models for NBSA in comparison to 1Q 2016. Positive contribution from ULL price that increased from HRK 43.61 to HRK 49.53 in amount of HRK 1 million is offset by lower realization of ULL quantities by 7.7%.

Other fixed revenue increase was mainly driven by online consumer services mainly related to digital advertising.

TV revenue increased in comparison to the same period last year as a result of higher customer base by 5.3% despite of slightly lower TV ARPU by 0.1% as consequence of push of TV through Magenta1, new Elderly offer and successful retention activities.

Broadband revenue was in line in comparison to the same period last year as a result of higher retail broadband customer base (3.3%) that compensated influence of lower broadband retail ARPU (2.7%). ARPU decline is a result of stronger competition and aggressive offers in the market. To stabilize revenues and build base for revenue growth, HT continues with push Magenta1 proposition offer, MAX2/MAX3 packages and Ultra MAX on FTTH.

System Solutions

System solution revenue decreased by HRK 24 million or 14.7% to HRK 141 million in 1Q 2017 in comparison to 1Q 2016. Crnogorski Telekom contributed with HRK 7 million. Excluding Crnogorski Telekom, system solution revenue is below 1Q 2016 by HRK 31 million or 18.8% due to different dynamic in projects realization.

Miscellaneous revenue

Increase in miscellaneous revenue mainly comes from energy business due to higher number of business customers (41.4%).

Other operating income

Other operating income decreased by HRK 19 million or 45.1% compared to 1Q 2016. Crnogorski Telekom contributed with HRK 1 million. Excluding Crnogorski Telekom, other operating income decreased by HRK 20 million or 47.1% due to lower level of fixed assets sale mainly driven by sale of lands in Rijeka and Požega in 1Q 2016, and absence of commitment write off related to obligation for antenna poles retirement realized in 1Q 2016.

3.2 Operating expenses

Total consolidated operating expenses increased by HRK 52 million or 4.6% to HRK 1,199 million in 1Q 2017. Crnogorski Telekom contributed with HRK 103 million. Excluding Crnogorski Telekom, operating expenses decreased by HRK 51 million or 4.4%.

Excluding Crnogorski Telekom, this decrease was a result of lower employee benefits, lower material expenses, partially neutralized with higher other expenses.

Excluding redundancy costs of HRK 32 million (1Q 2016: HRK 59 million), operating expenses increased by HRK 79 million or 7.3% to HRK 1,167 million in 1Q 2017. Excluding Crnogorski Telekom, without redundancy costs, operating expenses decreased by HRK 24 million or 2.2%.

Material expenses

Material expenses increased to HRK 540 million in 1Q 2017 as a result of higher merchandise, material and energy expenses and services expenses. Crnogorski Telekom contributed with HRK 40 million. Excluding Crnogorski Telekom, material expenses decreased by HRK 10 million or 1.9% as a result of lower services expenses and lower merchandise, material and energy expenses.

Excluding Crnogorski Telekom, lower services expenses are under influence of lower copyright fees, lower other services purchased, partially compensated with higher telecommunication costs.

Lower copyright fees (HRK 5 million or 27.6%) were caused by higher share of capitalized content rights contracts in spite of higher TV customer base 5.3%.

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

Telecommunication cost increased mainly driven by higher roaming usage which was partially offset by lower cost of international outgoing traffic due to decrease of average unit price.

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

Merchandise costs decrease was mainly driven by lower system solution merchandise that is in line with system solution revenue development, partially compensated with higher mobile merchandise and higher fixed merchandise compared to 1Q 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.

Decrease in cost of raw material and supplies is mainly due to lower costs related to purchase of protective work clothes and work material for agency technicians.

Increase of energy sales costs is influenced by higher usage and new regulation. At the very end of calendar year 2016 Croatian Government ceased a part of "Renewables Law" which sets suppliers free of obligation to buy green energy at premium price which is manifested with additional cost in 1Q 2017.

Employee benefits expenses

Total employee benefits expenses decreased by HRK 23 million or 7.9% in 1Q 2017 as a result of lower redundancy costs and slightly higher personnel costs. Excluding Crnogorski Telekom, total employee benefits decreased by HRK 48 million or 16.4% due to lower redundancy costs and lower personnel costs.

Total number of FTE amounts to 4,885 with Crnogorski Telekom contribution of 527 FTEs. Excluding Crnogorski Telekom, number of FTE decreased from 4,488 in 1Q 2016 to 4,358 in 1Q 2017 mainly due Headcount Restructuring program partially compensated by new employments.

Other expenses

Other expenses increased by HRK 44 million or 12.8% to HRK 392 million in 1Q 2017. Crnogorski Telekom contributed with HRK 36 million. Excluding Crnogorski Telekom, other expenses are above 1Q 2016 by HRK 8 million or 2.4% mainly due to higher selling commissions.

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.

Write down of assets

The assets write down increased by HRK 2 million or 13.0% to HRK 16 million in 1Q 2017. Crnogorski Telekom contributed with HRK 2 million. Excluding, Crnogorski Telekom, assets write down decreased by HRK 1 million or 4.5% mainly due to lower value adjustment of receivables.

Depreciation and amortization

Depreciation and amortization increased to HRK 412 million by HRK 64 million or 18.3% compared to 1Q 2016. Crnogorski Telekom contributed with HRK 40 million. Excluding Crnogorski Telekom, depreciation and amortization increased by HRK 24 million or 6.8% compared to 1Q 2016 driven by electronic communication infrastructure assets.

3.3 HT Group profitability

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 47 million or 7.4% to HRK 674 million in 1Q 2017. Crnogorski Telekom contributed with HRK 45 million. Excluding Crnogorski Telekom, EBITDA before exceptional items slightly increased by HRK 1 million or 0.2%. Increase is a result of lower operating expenses excluding exceptional items mainly under influence of lower employee benefits expenses, that have compensated lower other operating income and slightly lower revenue.

Optima Telekom contribution to 1Q 2017 Group EBITDA was in line with 1Q 2016. It amounted to HRK 24 million (1Q 2016: HRK 23 million) and consisted of HRK 57 million of Optima Telekom third party

contribution (1Q 2016: HRK 54 million) and HRK 33 million of inter-company relations (1Q 2016: HRK 30 million).

Net profit after non controlling interests

In comparison to 1Q 2016, consolidated net profit after non controlling interests increased by HRK 13 million or 9.5% to HRK 149 million in 1Q 2017. Crnogorski Telekom contributed with HRK 4 million. Excluding Crnogorski Telekom, net profit after non controlling interest increased by HRK 9 million or 6.8%.

Except higher EBITDA contribution (HRK 1 million), net profit after non controlling interest increased due lower restructuring costs that have compensated higher depreciation and amortization as well as higher financial income as a result of improved financial result of joint venture and positive development of exchange rates.

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

3.4 Balance sheet

Total value of assets increased by 3.9% in comparison to last year end primarily driven by non-current assets mainly due to consolidation of Crnogorski Telekom.

Without effect of consolidation, value of total assets would remain stable in comparison to end of year 2016. Current financial assets decreased for HRK 607 million mainly due to payment made for Crnogorski Telekom acquisition.

Total issued capital and reserves increased from HRK 12,046 million at 31 December 2016 to HRK 12,387 million at 31 March 2017 because of realized net profit for 1Q 2017 in the amount of HRK 149 million, while remaining difference is effect of consolidation of Crnogorski Telekom.

Total non-current liabilities increased by HRK 58 million or 10.3% mainly due to consolidation of Crnogorski Telekom coming from their deferred tax liability. Without this effect, increase in non-current liabilities would be only 3.3% mostly due to higher liabilities related to retransmission rights.

Total current liabilities increased by HRK 172 million to HRK 2,019 million at 31 March 2017 mainly due to consolidation of Crnogorski Telekom coming from their trade payables. Without this effect, there would be decrease in non-current liabilities of 4.1% mostly due to settlement of higher payables for capital expenditures and international traffic at year end.

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 78 million or 13.6% driven by consolidation of Crnogorski Telekom that contributed with HRK 56 million. Without this effect, cash flow from

operating activities increased by HRK 23 million or 3.9% mainly due to better working capital management in 2017.

Net Cash flow from investing activities decreased by HRK 626 million including effect of consolidation of Crnogorski Telekom in amount of HRK 17 million. Without this effect, cash flow from investing activities decreased by HRK 608 million mainly due to investment into Crnogorski Telekom in amount of HRK 924 million which was partially offset with net increase of REPO arrangements proceeds.

Net Cash flow from financing activities decreased by HRK 107 million or 155.3% driven by consolidation of Crnogorski Telekom that contributed with HRK 53 million. Without this effect, cash flow from financing activities decreased by HRK 54 million or 78.5% mainly due repayment of financial lease.

3.6 HT Group capital expenditure

HT Group

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
T-HT Group	314	366	16.6%
Capex / Revenue ratio	18.8%	20.1%	1.4 p.p.

Crnogorski Telekom

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
Crnogorski Telekom	0	22	-

Capital expenditure realization increased by HRK 52 million or 16.6% including contribution of Crnogorski Telekom in amount of HRK 22 million. Without this effect, capital expenditure realization increased by HRK 30 million or 9.7% to HRK 344 million in comparison to 1Q 2016 mostly due higher investment related to capitalization of contracts for TV content.

In 1Q 2017, activities continued for achieving Digital Agenda 2020 targets. Additional progress achieved in increasing coverage of NGA access with special emphasis in FTTx area. Number of households covered with FTTx increased by approximately 15 thousand households since the beginning of 2017, which increased the total coverage of Croatian households to 55% exclusively by HT effort.

In mobile network, "indoor" 4G population coverage has increased to 71.8% (increase of 3.6 p.p.) and "outdoor" coverage increased to 97.6% (increase of 0.7 p.p.) since the beginning of 2017. Regarding throughput distribution, 4G population coverage of download up to 225 Mbps has been increased for 2 p.p. to 52%.

Implementation of 4G layer with download ultra-high speeds up to 262.5 Mbps continued (now enabled for 4% of users). Intensive preparations are ongoing in order to ensure sufficient capacity in the tourist areas with increased traffic initiated by abolishing roaming regulation.

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

Note: Q1 2016 is not consolidated into HT Group accounts. Q1 2016 Data is presented for illustrative purposes to indicate key trends in Crnogorski Telekom performance versus Q1 2017. "Segment Crnogorski Telekom consolidated" is presented later in the document. EUR is the official reporting currency Crnogorki Telekom.

in EUR million			
Key financial data	1Q 2016	1Q 2017	% of change A17/A16
Mobile revenue	9.6	9.3	-3.1%
Fixed revenue	11.1	9.6	-13.9%
System solutions	0.8	0.9	13.6%
Revenue	21.6	19.8	-8.1%
EBITDA before EI	7.3	6.1	-17.1%
Capex	1.7	2.9	74.9%

OPERATIONAL HIGHLIGHTS - CRNOGORSKI TELEKOM

Key operational data	1Q 2016	1Q 2017	% of change A17/A16
Mobile customers in 000	334	353	5.6%
- Prepaid	167	161	-4.0%
- Postpaid	167	192	15.4%
Fixed mainlines - retail in 000	144	132	-8.0%
Broadband access lines - retail in 000	75	71	-5.1%
TV customers in 000	62	58	-5.5%

Market pressure resulted in lower revenue, down EUR 2 million or 8.1%, in Q1 2017 in comparison to Q1 2016.

Mobile revenues declined compared to Q1 2016 by EUR 0.3 million, or 3.1%. Prepaid segment still represents challenge, and has declined compared to Q1 2016 by EUR 0.4 million or 16.4%. Main drivers of prepaid decline are lower customer base by 4.0% as a result of main competitors' focus on prepaid segment and regulatory pressure. Crnogorski Telekom has set its focus on postpaid segment.

Postpaid revenue increased by EUR 0.1 million, or 0.9%, compared to Q1 2016, driven by customer base growth of 15.4% supported by Magenta 1 and with new standalone, more competitive and data oriented portfolio. Following the above mentioned, Crnogorski Telekom has improved its leading position in postpaid segment.

Crnogorski Telekom has market share leadership in fixed voice and broadband in the Montenegrin market and fixed revenues declined compared to Q1 2016 by EUR 1.6 million, or 13.9%. A fixed voice decline continued (EUR 1.0 million or 26.3%) due to regulatory pressure, ongoing fixed to mobile substitution, and a fall in the customer base of 8.0%. Broadband revenue was down on Q1 2016 by EUR 0.5 million, or 17.2%, while TV fell by EUR 0.1 million, or 6.4%, both driven by the lower customer base. Broadband was also affected by regulation. Churn prevention efforts are underway, with a refresh of Magenta1, VDSL and Extra Duo offers in the core telco retail market.

System solutions revenue at Crnogorski Telekom in Q1 2017 rose by EUR 0.1 million, or 13.6% in comparison to Q1 2016.

EBITDA before exceptional items decreased by EUR 1 million, or 17.9%, compared to Q1 2016, in line with revenue movements and partially offset by lower material costs, due to lower copyright fees as a result of TV content capitalization in Q1 2017.

The EBITDA margin before exceptional items in Q1 2017 amounted to 30.5% and was 3.7 p.p. low than in Q1 2016 (Q1 2016: 33.9%), largely due to ongoing competitive pressures across all business lines, especially in the fixed segment, as well as regulatory pressure.

Crnogorski Telekom Capex increased by EUR 1 million, or 74.9%, in Q1 2017 as a result of higher capitalization of TV content contracts when compared to Q1 2016.

5. Overview of segment profitability

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

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

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

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

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

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

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

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

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

5.1 Residential Segment

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
Mobile revenue	444	462	4.0%
Fixed revenue	460	446	-3.0%
Miscellaneous	10	11	14.1%
Revenue	914	919	0.6%
Operating expenses	289	307	6.2%
Contribution to EBITDA before exceptional items	624	612	-2.0%

5.2 Business Segment

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
Mobile revenue	210	213	1.2%
Fixed revenue	264	272	2.8%
System solutions	165	134	-18.8%
Miscellaneous	11	24	111.9%
Revenue	651	643	-1.3%
Operating expenses	346	334	-3.6%
Contribution to EBITDA before exceptional items	305	309	1.4%

5.3 Network and support functions

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
Other operating income	41	21	-48.1%
Operating expenses	397	371	-6.4%
Contribution to EBITDA before exceptional items	-355	-350	1.5%

5.4. Segment Optima Telekom consolidated

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
Fixed revenue	108	108	-0.3%
Revenue	108	108	-0.3%
Other operating income	0	1	53.6%
Operating expenses	55	51	-6.7%
Contribution to EBITDA before exceptional items	54	57	6.7%

5.5. Segment Crnogorski Telekom consolidated

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
Mobile revenue	0	70	-
Fixed revenue	0	72	-
System solutions	0	7	-
Revenue	0	148	-
Other operating income	0	1	-
Operating expenses	0	103	-
Contribution to EBITDA before exceptional items	0	46	-

6. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue increased by HRK 31 million or 2.2% to HRK 1,446 million in 1Q 2017 when compared to 1Q 2016. Increase was driven by higher mobile revenue coming from mobile handset revenue, miscellaneous revenue coming from energy business and system solution revenue. This increase was partially offset with decrease in fixed revenue mostly resulting from lower voice, compensated by higher wholesale and TV revenue.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 4 million or 0.6% to HRK 583 million in 1Q 2017, mainly as a result of higher revenue. This increase was partially compensated by lower other operating income and higher other expenses excluding exceptional items. Higher material expenses driven mainly by higher merchandise costs related to growing system solution business and retention activities taken in mobile segment were completely compensated with lower employee benefits expenses before redundancy restructuring costs.

Net profit after non controlling interests

Net profit after non controlling interests increased by HRK 12 million or 9.1% to HRK 145 million in 1Q 2017. Increase was primarily a result of lower exceptional items related to personnel redundancy restructuring costs and higher EBITDA before exceptional items, that were partially compensated by higher depreciation and amortization driven by electronic communication infrastructure assets.

7. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2016 made public, there were no material changes to the Group's risk profile in the period under review.

8. HT Group 2017 outlook, including Crnogorski Telekom

Revenue

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

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

In light of the environment described above, alongside the contribution from growth areas within the Group and the impact of Crnogorski Telekom consolidation as of 1 January 2017, the Board now expects 2017 revenue to be around 10% higher than in 2016.

EBITDA before exceptional items

The economic environment and revenue trends outlined above, along with further changes in the revenue structure, will impact EBITDA accordingly. However, the Group's continued focus on transformation initiatives will help maintain a high level of profitability, and consequently the Board expects an EBITDA margin in 2017 of around 40%.

Investments

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

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

9. HT Group Financial statements

9.1 Consolidated Income Statement

in HRK million (IFRS)	1Q 2016	1Q 2017	% of change A17/A16
Mobile revenue	655	745	13.7%
Fixed revenue	832	897	7.8%
System solutions	165	141	-14.7%
Miscellaneous	21	35	66.8%
Revenue	1,673	1,818	8.7%
Other operating income	42	23	-45.1%
Total operating revenue	1,715	1,841	7.3%
Operating expenses	1,147	1,199	4.6%
Material expenses	509	540	6.0%
Employee benefits expenses	289	266	-7.9%
Other expenses	347	392	12.8%
Work performed by the Group and capitalised	-13	-15	-12.3%
Write down of assets	14	16	13.0%
EBITDA	568	641	13.0%
Depreciation and amortization	349	412	18.3%
EBIT	219	229	4.4%
Financial income	19	22	18.7%
Income/loss from investment in joint ventures	-3	-1	61.3%
Financial expenses	69	70	1.5%
Profit before taxes	166	180	8.3%
Taxation	34	34	-0.2%
Net profit	132	146	10.5%
Non controlling interests	-3	-2	32.5%
Net profit after non controlling interests	136	149	9.5%
Exceptional items ¹⁾	59	32	-45.5%
EBITDA before exceptional items	627	674	7.4%

¹⁾ Related to redundancy restructuring costs

9.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2016	At 31 Mar 2017	% of change A17/A16
Intangible assets	1,738	2,285	31.5%
Property, plant and equipment	5,619	6,133	9.1%
Non-current financial assets	1,352	1,338	-1.1%
Receivables	121	202	67.7%
Deferred tax asset	59	55	-7.7%
Total non-current assets	8,889	10,013	12.6%
Inventories	111	145	30.3%
Receivables	1,327	1,472	10.9%
Current financial assets	1,189	582	-51.0%
Cash and cash equivalents	2,676	2,576	-3.8%
Prepayments and accrued income	262	237	-9.5%
Total current assets	5,566	5,012	-10.0%
TOTAL ASSETS	14,455	15,025	3.9%
Subscribed share capital	9,823	9,812	-0.1%
Reserves	492	492	0.0%
Revaluation reserves	2	4	65.6%
Retained earnings	633	1,551	145.1%
Net profit for the period	934	149	-84.1%
Non controlling interests	163	380	133.4%
Total issued capital and reserves	12,046	12,387	2.8%
Provisions	53	65	22.0%
Non-current liabilities	472	503	6.5%
Deferred tax liability	35	51	43.3%
Total non-current liabilities	561	619	10.3%
Current liabilities	1,741	1,901	9.2%
Deferred income	89	88	-1.5%
Provisions for redundancy	17	30	81.4%
Total current liabilities	1,847	2,019	9.3%
Total liabilities	2,408	2,638	9.5%
TOTAL EQUITY AND LIABILITIES	14,455	15,025	3.9%

9.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	1Q 2016	1Q 2017	<i>% of change A17/A16</i>
Profit before tax	166	180	8.3%
Depreciation and amortization	349	412	18.3%
Increase / decrease of current liabilities	11	0	-96.0%
Increase / decrease of current receivables	64	126	95.7%
Increase / decrease of inventories	-21	-36	-73.8%
Other cash flow increases / decreases	5	-30	-
Net cash inflow/outflow from operating activities	575	653	13.6%
Proceeds from sale of non-current assets	33	4	-86.5%
Proceeds from sale of non-current financial assets	0	0	-2.7%
Interest received	5	4	-27.9%
Dividend received	0	0	-
Other cash inflows from investing activities	596	716	20.1%
Total increase of cash flow from investing activities	635	725	14.2%
Purchase of non-current assets	-400	-320	20.1%
Purchase of non-current financial assets	0	-930	-
Other cash outflows from investing activities	-233	-99	57.5%
Total decrease of cash flow from investing activities	-633	-1,349	-113.0%
Net cash inflow/outflow from investing activities	1	-624	
Total increase of cash flow from financing activities			
Repayment of loans and bonds	0	-48	-
Dividends paid	0	-1	-
Repayment of finance lease	-2	-51	
Other cash outflows from financing activities	-67	-75	-11.6%
Total decrease in cash flow from financing activities	-69	-175	-155.3%
Net cash inflow/outflow from financing activities	-69	-175	-155.3%
Exchange gains/losses on cash and cash equivalents	-29	-13	56.1%
Cash and cash equivalents at the beginning of period	3,175	2,734	-13.9%
Net cash (outflow) / inflow	479	-159	-133.1%
Cash and cash equivalents at the end of period	3,654	2,576	-29.5%

9.4 Consolidated EBITDA reconciliation

in HRK million	1Q 2016	1Q 2017	% of change A17/A16
Segment Result (Contribution to EBITDA)			
Residential Segment	624	612	-2.0%
Business Segment	305	309	1.4%
Network and Support Functions	-355	-350	1.5%
Segment Optima consolidated	54	57	6.7%
Segment Crnogorski telekom consolidated	0	46	-
Total Contribution to EBITDA before exceptional items of the Segments	627	674	7.4%
Exceptional items	59	32	-45.5%
Total EBITDA	568	641	13.0%

9.5 Notes to the condensed consolidated financial statements for the three months ended on 31 March 2017

Basis of preparation

The condensed consolidated financial statements as of 31 March 2017 and for the three 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 will be paid in May 2017.

Business combinations

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

The total cost of acquisition amounted to HRK 924 million.

Segment information

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

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

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

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

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

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

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

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

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

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

Period ended 31 March 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	914	651	-	108	-	1.673
Mobile revenue	444	211	-	-	-	655
Fixed revenue	460	264	-	108	-	832
System solutions revenue	-	165	-	-	-	165
Miscellaneous revenue	10	11	-	-	-	21
Usage related direct costs	(51)	(45)	-	(23)	-	(119)
Income and losses on accounts receivable	(3)	(9)	-	(2)	-	(14)
Contribution margin I	860	597	-	83	-	1.540
Non-usage related direct costs	(141)	(203)	-	(3)	-	(347)
Segment result	719	394	-	80	-	1.193
Other income	-	-	41	-	-	41
Other operating expenses, restated	(109)	(101)	(430)	(26)	-	(666)
Depreciation, amortization and impairment of non-current assets, restated	-	-	(326)	(23)	-	(349)
Operating profit, restated	610	293	(715)	31	-	219

Period ended 31 March 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	919	643	-	108	148	1.818
Mobile revenue	462	213	-	-	70	745
Fixed revenue	446	272	-	108	71	897
System solutions revenue	-	134	-	-	7	141
Miscellaneous revenue	11	24	-	-	-	35
Usage related direct costs	(51)	(49)	-	(21)	(12)	(133)
Income and losses on accounts receivable	(5)	(5)	-	(2)	(3)	(15)
Contribution margin I	863	589	-	85	133	1.670
Non-usage related direct costs	(162)	(188)	-	(2)	(26)	(378)
Segment result	701	401	-	83	107	1.292
Other income	-	-	21	1	1	23
Other operating expenses	(96)	(99)	(390)	(27)	(62)	(674)
Depreciation, amortization and impairment of non-current assets	-	-	(348)	(24)	(40)	(412)
Operating profit	605	302	(717)	33	6	229

Relations with the governing company and its affiliated companies

In the first three 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 three 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 three months of 2017.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first three 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 three months of 2017 the Group generated total revenue from related companies from international traffic to the amount of HRK 20 million (the first three months of 2016: HRK 13 million), while total costs of international traffic amounted to HRK 20 million (the first three months of 2016: HRK 13 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 1 million in the first three months of 2017 (the first three months of 2016: HRK 2 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 three months of 2017 the Company paid a total amount of HRK 0.2 million (the first three months of 2016: HRK 0.2 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 three months of 2017 the total compensation paid to key management personnel of the Group amounted to HRK 8 million (first three months of 2016: HRK 8 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 three 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 Thürriegel, Member of the Management Board and Chief Financial Officer

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

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

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

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

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

Zagreb, 28 April 2017

11. Presentation of information

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

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

Therefore, references to "Business" are to business operations performed within the Company's Business Segment.

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

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

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

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

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

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

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

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

12. Disclaimer

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