

Zagreb - 30 October 2014

## **T-Hrvatski Telekom Results for the nine months ended 30 September 2014**

### **HRK 5.1 billion revenue, the transformation in the Company continues**

T-Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited results for the nine months to the end of 30 September 2014.

In the first nine months of 2014, HT reported revenue of HRK 5.1 billion, a fall of just 2.2% compared with January-September 2013, marking a slowdown in the pace of decline. During the period, the Group saw some areas of revenue increase - primarily in ICT and mobile communications, where revenues were notably boosted by seasonal visitors and mobile data.

Despite the increased costs related to the transformation of the Company undertaken in 2014, EBITDA before exceptional items for the first nine months totaled HRK 2.0 billion, and marking a slowdown in the decline to 2.9 percent.

In the first nine months of 2014, net profit totaled HRK 717 million.

In the first nine months of 2014, the telecommunications industry in Croatia was significantly impacted by the protracted economic downturn and regulatory changes, as well as the imposition of a new spectrum fee by the Government. Nevertheless, in the face of this challenging environment, HT has managed to maintain its leading position in all business segments and remains the leading telecommunications provider in Croatia.

At 30 September 2014, Hrvatski Telekom had 1.2 million fixed line customers, 2.3 million mobile subscribers and 617,000 broadband retail access lines and provided TV services for 393,000 customers.

Optima Telekom (OT) was fully consolidated into HT Group's financial statements as of 1 July 2014, following the takeover of control of OT by HT.

### **Company Transformation as Basis for Future Growth and Business Expansion**

To build the foundations for the future growth and expansion of the Group's operations, against the backdrop of the ongoing economic crisis and continued deterioration of the Croatian telecommunications market, the first nine months of the year were characterized by the transformation of the Company.

In order to increase the level of efficiency and customer focus as part of the Company's transformation, a new organizational structure has now been implemented, with substantially fewer managerial positions.

A new Collective Agreement has been agreed with the Unions, providing a high level of rights to HT employees, but also reflecting the present economic situation and conditions under which the Group

operates. The undertaken headcount optimization involved further 144 employees in third quarter 2014.

In order to increase infrastructure quality, whilst optimizing costs with regard to construction and maintenance, a contract to outsource the services of construction and maintenance of HT's infrastructure was signed with Ericsson for a five-year period and 638 employees started working in the newly established company from 1 September 2014.

The first nine months of the year were also marked by the intensive implementation of the programme to migrate PSTN to IP, and 67% of residential and business customers have now been migrated to IP technology. Throughout 2014, HT has continued to focus on the further development of the network infrastructure, enhancing broadband access and capacity and facilitating migration to the IP network, whilst further developing its technology leadership to ensure continuity of operations and the long-term sustainability of the Group's leading market position.

#### **Davor Tomašković, President of the Management Board of HT: Company Transformation and Solid Results Marked First Nine Months of 2014**

Commenting on the results for the first nine months of 2014, **Davor Tomašković**, President of the Management Board and CEO of Hrvatski Telekom, said:

“Operating in the face of a worsening economic crisis, which has been exacerbated for the telecommunications industry by the Government's introduction of a new spectrum fee, in the first nine months of the year Hrvatski Telekom managed to maintain its leading position in all segments of the telecommunications market and to improve its key financial indicators.

“Compared to the same period last year, we slowed the pace of revenue decline, and have almost stabilized our revenue performance. In the third quarter of 2014, our activities were primarily focused on the transformation of the Company. We will continue to implement transformation initiatives in the forthcoming period in order to create a firm foundation for the future growth of the business in both the domestic and regional markets. Despite the challenging economic situation and regulatory changes, the positive impact of the transformation activities we have undertaken to date has enabled us to maintain our outlook for 2014.”

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A conference call for analysts and investors will be held at 10:00 UK time / 11:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In	+44 (0) 1452 555 566
UK Free Call Dial In (from landlines only)	0800 694 0257
Conference ID	21793605

A replay of the call will be available until Wednesday, 5 November 2014 using the following details:

International Dial In	+44 (0)1452 550 000
UK Free Call Dial In (from landlines only)	0800 953 1533
Replay Access Code	21793605

A presentation covering results for the nine months of 2014 can be downloaded from the T-HT web site ([www.t.ht.hr/eng/investors/](http://www.t.ht.hr/eng/investors/)).

## 1. Review

### 1.1 Introduction

T-Hrvatski Telekom is Croatia's largest telecommunications provider and the market leader in all segments in which it operates. At 30 September 2014, the Group served 1.2 million fixed-line customers, 2.3 million mobile subscribers, nearly 620,000 broadband retail access lines and provided TV services to more than 390,000 customers.

### 1.2 Market overview

#### Fixed-line market

Fixed telephony remains highly competitive in Croatia, with 13 operators active in the market. Fixed to mobile substitution is key market driver in declining fixed-line market. The number of fixed-line minutes of use (MOU) decreased yoy by 14.2% in Q2 2014.

In line with the stipulations of the pre-bankruptcy settlement of Optima Telekom and following the realisation of a Mandatory Convertible Loan instrument, HT and Optima Telekom signed on 30 July

2014 an agreement on the conversion of rights into the share capital, resulting in an increase of share capital of Optima Telekom. HT gained additional 10.88% stake and now holds 19.11% of the share capital of the Company.

Optima Telekom is fully consolidated into the HT Group financial accounts, due to the fact that HT exercises control over the Company, based on the Agreement with Zagrebačka Banka, the major shareholder of the Company.

The goal of taking over the management of OT, under terms strictly defined by the AZTN, is to improve the market position of OT and to stabilize the company's financial performance in order to protect the interests of customers, employees, shareholders and other stakeholders of OT as well as the telecommunications market in general.

T-HT successfully maintained its leading position in the fixed line market, reflecting the Group's continuing dedication to high-quality services and improved offers.

### **Mobile telecommunications**

The mobile SIM market continues to contract, reaching an estimated penetration rate of 118.4% at the end of September 2014 vs. the 121.3% penetration rate reported for September 2013. The Company's share of total mobile customers is stable at an estimated 46.2%.

Mobile usage continues to grow with total Croatian mobile market minutes of use (MOU) increasing yoy by 5.9% in Q2 2014, while the number of SMSs sent decreased yoy by 3.8% owing to the impact of increasing "Over the Top" services usage. Mobile operators have increased their efforts to improve their customer mix, supported by smartphone and mobile broadband adoption.

On 23 May 2014 a threefold increase in the radiofrequency spectrum was introduced by the decision of the Croatian government.

HT, as the largest operator, maintains the leading market position in a saturated mobile market by providing enhanced commercial tariff offers, further extension of the LTE based network coverage, with 4G attractive offers, and through its new brand-reseller co-operation with "24sata" magazine.

### **Internet**

The Croatian fixed broadband market grew yoy by 3.0% in Q2 2014 reaching 936,769 fixed broadband connections. DSL is still the dominant broadband technology. T-HT is the largest fixed broadband operator in Croatia. At the end of Q3 2014, T-HT Group had 617,143 broadband access lines.

T-HT has started to offer fiber optic Ultra MAX packages at the price of the standard MAX packages. The packages are FTTH-based (Fiber to the Home) and offer 10 times higher speed compared to MAX packages for residential customers. This is a step towards expanding T-HT's fiber optic network, which enables the optimal Internet speeds in accordance with today's pace of life, and includes fast and uninterrupted consumption of digital content.

The Croatian pay TV market grew yoy by 9.3% in Q2 2014 reaching 723,984 customers. This positive trend is expected to continue throughout 2014. T-HT is also the pay-TV market leader thanks to its IPTV platform, MAXtv.

## **Data**

HT is maintaining its leading position in a data market that is migrating from traditional data services to more cost-effective, IP-based services. Although the data market is relatively small, it represents an important service for business customers.

## **Wholesale**

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in Q3 2014 with a major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 65,736 at the end of Q3 2014. Due to high churn, the number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is stagnating with 170,440 ULLs and 117,785 WLRs at the end of the period.

## **ICT**

According to the latest IDC Adriatic analysis, slight growth in the Croatian ICT market is expected in 2014. The fastest growth rate is expected in the segment of mobile devices (tablets and smartphones); furthermore printers and packaged software will have a more moderate growth rate. Hardware reselling of PCs, Servers and Storage devices will decline in growth.

There is strong and increasing trend toward usage of third platform computing – social, mobile, cloud and big data.

## **1.3 Economic background**

The first year of EU membership did not result in any economic positive impact. The Croatian GDP growth rate contracted again in Q1 and Q2 2014<sup>3</sup>.

Household consumption will remain burdened by weakness in the labour market and high levels of consumer uncertainty. A continuous declining trend in number of employed persons, which started in August 2009, continued in August 2014. There were in total 1,364,599 employed persons in Croatia in August 2014, which is a decline of 27,175 persons, or 2%, from the previous August. Disposable income reported for July 2014 was almost at the same level as in July 2013 (at an average HRK 5,530, which is 0.6% higher in real terms).

Investment activity is not expected to recover in 2014. Private investments have been halted by an unfavorable investment environment, while public investments largely depend on foreign capital and the capability to withdraw EU funds. A lack of reforms, low levels of competitiveness and high public debt have resulted in a poor economic outlook.

## 1.4 Regulatory environment

### **HAKOM proposes to deregulate fixed calls services**

On 23 September 2014, HAKOM notified the European Commission of a proposal to issue a decision by which HAKOM would deregulate the fixed calls market, i.e. withdraw all existing regulatory obligations imposed on HT and Iskon in this market. This proposal refers to fixed calls, while voice access remains regulated. Following pending EC approval, which is expected within 30 days, HAKOM is expected to issue a final decision.

### **FTTH WS price change leads to more favourable HT retail prices on the market**

As of 25 August 2014 HT lowered its retail prices for services provided on HT's existing fiber (FTTH) network. Whereas wholesale bitstream FTTH prices are based on the retail minus principle, as of 25 August 2014, HT lowered its bitstream FTTH prices accordingly. At the same time, HAKOM was in the process of defining new wholesale bitstream prices, which were cost oriented and calculated based on actual cost. In order to ensure further application of introduced level of lower fiber retail and wholesale prices for existing FTTH network, HT submitted to HAKOM a new cost calculation for bitstream FTTH prices for the existing FTTH network. HAKOM opened public consultations on HT's proposal, and following European Commission notification, the cost oriented bitstream FTTH prices should be in force from 1 January 2015.

### **Rights of Way issue re-opened through new HAKOM proposal**

In July 2014 HAKOM opened public consultations on the proposal for the Amendments to the Bylaw on Certificates and Fees for the Rights of Way (RoW).

The first proposal of Bylaw was withdrawn from public consultation. Currently, there is an ongoing process of drafting a new proposal for the Bylaw that is expected to be a subject of a new public consultation. As part of the process, HT supports the proposal of the so-called "German model" that implies exemption fees for using public properties, as it supports the building of electronic communications infrastructure which is determined by law as in the interest of the Republic of Croatia and fostering investments in the sector through the decrease of costs of building and maintenance of the electronic communications infrastructure.

### **Amendments to the Ordinance on payment of fees for the licence for use of addresses, numbers and radio frequency spectrum**

On 23 May 2014, Amendments to the Ordinance on payment of fees for the licence for use of addresses, numbers and radio frequency spectrum was introduced. The said ordinance introduced a threefold increase in the annual radio frequency fee as an additional measure of fiscal consolidation in 2014 on the revenue side of the State Budget, aimed at decreasing the excessive deficit, in accordance with the conclusion of the Government brought on 17 April 2014.

The proposed increase for Croatian Telecom represents an additional increase of the annual RF spectrum fee in the amount of respectively HRK 138 million p.a. In response to the increase, HT increased the prices of mobile services by introducing mobile network access fee (as of 1 July 2014 for postpaid customers - in the amount of HRK 8 + VAT; as of 10 July 2014 for prepaid customers - 10% of the prepaid voucher denomination).

## 1.5 GDR program terminated

Since its initial public offering in October 2007, T-HT shares have traded on the Zagreb Stock Exchange, with Global Depositary Receipts trading on the London Stock Exchange until the delisting and termination of the GDR facility on 6 October 2014. The shares will continue to be listed and tradable on the Zagreb Stock Exchange.

As announced earlier, at the beginning of July HT has sent Notice to JPMorgan Chase Bank, acting as HT's GDR Depositary, of the termination of HT's GDR Depositary Agreement.

The Company has decided to terminate the GDR program and delist its GDRs from the LSE due to the low number of GDRs in facility and their low trading volume on the LSE, making the economic rationale for continuing to list on the LSE unconvincing.

## 1.6 Changes in reporting

In Q4 2013, the treatment of revenue from default interests and dunning letters was amended and presented as a part of Revenue instead of Other operating income for the whole of 2013. In order to reconcile the presentation of comparable period data with data presented in first nine months of 2014, the following positions in the financial statements for first nine months of 2013 were also reclassified as follows: Other operating income (HRK -49 million), Revenue (HRK +49 million).

The 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. The 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, as of 1 July 2014, only financial statements are consolidated while due to limited access to Optima Telekom's information, non financial KPIs are not consolidated in the Group results.

## 1.7 Summary of key financial indicators

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Revenue	1,786	1,854	3.8	5,255	5,141	-2.2%
EBITDA before exceptional items	792	769	-2.9%	2,214	2,049	-7.5%
Exceptional items	6	25	286.9%	66	115	73.1%
EBITDA after exceptional items	786	744	-5.3%	2,148	1,934	-9.9%
EBIT (Operating profit)	463	391	-15.6%	1,189	922	-22.5%
Net profit	394	315	-20.0	964	717	-25.6%
EBITDA margin before exceptional items	44.3%	41.5%	-2.8 p.p.	42.1%	39.9%	-2.3 p.p.
EBITDA margin after exceptional items	44.0%	40.1%	-3.9 p.p.	40.9%	37.6%	-3.3 p.p.
EBIT margin	25.9%	21.0%	-4.9 p.p.	22.6%	17.9%	-4.7 p.p.
Net profit margin	22.1%	17.0%	-5.1%	18.3%	13.9%	-4.4 p.p.

in HRK million	At 31 Dec 2013	At 30 Sep 2014	change
Cash and cash equivalents	2,039	3,045	49.3%
Total assets	12,820	12,922	0.8%
Total issued capital and reserves	10,700	10,665	-0.3%

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Net cash flow from operating activities	354	619	74.9%	1,427	1,421	-0.4%

#### RESIDENTIAL SEGMENT

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Revenue	1,017	1,015	-0.1	3,000	2,948	-1.7%
Contribution to EBITDA before EI	726	705	-2.9	2,071	2,025	-2.2%

#### BUSINESS SEGMENT

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Revenue	769	725	-5.7%	2,255	2,080	-7.8%
Contribution to EBITDA before EI	447	385	-13.9%	1,282	1,069	-16.6%

#### NETWORK & SUPPORT FUNCTIONS

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Contribution to EBITDA before EI	-381	-376	1.3%	-1,139	-1,100	3.4%

#### SEGMENT OPTIMA TELEKOM

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Revenue		113	-	0	113	-
Contribution to EBITDA before EI		55	-	0	55	-

### 1.8 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Nine months to 30 Sep 2013	7.56	7.61	5.74	5.64
Nine months to 30 Sep 2014	7.62	7.63	5.62	6.02

## 2. Business Review

Key operational data	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
<b>Mobile subscribers in 000</b>						
<b>Number of customers</b>	<b>2,392</b>	<b>2,332</b>	<b>-2.5%</b>	<b>2,392</b>	<b>2,332</b>	<b>-2.5%</b>
- Residential	1,926	1,857	-3.6%	1,926	1,857	-3.6%
- Business	466	475	1.9%	466	475	1.9%
<b>Number of postpaid customers</b>	<b>1,048</b>	<b>1,089</b>	<b>3.8%</b>	<b>1,048</b>	<b>1,089</b>	<b>3.8%</b>
<b>Number of prepaid customers</b>	<b>1,344</b>	<b>1,244</b>	<b>-7.5%</b>	<b>1,344</b>	<b>1,244</b>	<b>-7.5%</b>
<b>Minutes of use (MOU) per average customer</b>	<b>178</b>	<b>191</b>	<b>7.4%</b>	<b>173</b>	<b>188</b>	<b>8.4%</b>
- Residential	160	174	8.7%	154	171	10.8%
- Business	253	259	2.5%	250	253	1.2%
<b>Blended ARPU (monthly average for the period in HRK)</b>	<b>84</b>	<b>81</b>	<b>-2.7%</b>	<b>84</b>	<b>80</b>	<b>-5.2%</b>
- Residential	73	71	-2.4%	71	70	-2.2%
- Business	127	120	-5.1%	136	118	-12.9%
<b>Blended non-voice ARPU (monthly average for the period in HRK)</b>	<b>31</b>	<b>34</b>	<b>10.1%</b>	<b>30</b>	<b>34</b>	<b>10.6%</b>
<b>SAC per gross add in HRK</b>	<b>92</b>	<b>111</b>	<b>21.1%</b>	<b>102</b>	<b>131</b>	<b>28.4%</b>
<b>Churn rate (%)</b>	<b>3</b>	<b>3</b>	<b>-0.1 p.p.</b>	<b>3</b>	<b>3</b>	<b>-0.2 p.p.</b>
<b>Penetration (%) <sup>1)</sup></b>	<b>121</b>	<b>118</b>	<b>-2.9 p.p.</b>	<b>121</b>	<b>118</b>	<b>-2.9 p.p.</b>
<b>Market share of subscribers (%) <sup>1)</sup></b>	<b>46</b>	<b>46</b>	<b>0.1 p.p.</b>	<b>46</b>	<b>46</b>	<b>0.1 p.p.</b>
<b>Data subscribers (in 000)</b>	<b>1,285</b>	<b>1,405</b>	<b>9.3%</b>	<b>1,285</b>	<b>1,405</b>	<b>9.3%</b>

1) Source: VIPnet's published Q3 2013 and Tele2's report for Q3 2013. Number of customers for VIPnet and Tele2 for Q3 2014 is internally estimated.

Key operational data	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
<b>Fixed mainlines in 000</b>						
<b>Fixed mainlines - retail <sup>1)</sup></b>	<b>1,156</b>	<b>1,067</b>	<b>-7.7%</b>	<b>1,156</b>	<b>1,067</b>	<b>-7.7%</b>
- Residential	989	926	-6.4%	989	926	-6.4%
- Business	166	141	-15.0%	166	141	-15.0%
<b>Fixed mainlines - wholesale (WLR)</b>	<b>112</b>	<b>118</b>	<b>4.7%</b>	<b>112</b>	<b>118</b>	<b>4.7%</b>
- Residential	95	103	8.7%	95	103	8.7%
- Business	18	15	-16.6%	18	15	-16.6%
<b>Total Traffic (mill. of minutes) <sup>5)</sup></b>	<b>450</b>	<b>361</b>	<b>-19.8%</b>	<b>1,503</b>	<b>1,180</b>	<b>-21.4%</b>
- Residential	359	296	-17.4%	1,190	963	-19.1%
- Business	91	65	-28.9%	313	217	-30.6%
<b>ARPA voice per access (monthly average for the period in HRK) <sup>2)</sup></b>	<b>103</b>	<b>94</b>	<b>-8.3%</b>	<b>105</b>	<b>95</b>	<b>-9.2%</b>

- Residential	90	84	-6.3%	91	84	-7.2%
- Business	181	161	-11.1%	188	164	-12.7%

IP mainlines/customers in 000						
<b>Broadband access lines - retail <sup>3)</sup></b>	<b>631</b>	<b>617</b>	<b>-2.2%</b>	<b>631</b>	<b>617</b>	<b>-2.2%</b>
- Residential	521	514	-1.5%	521	514	-1.5%
- Business	109	104	-5.3%	109	104	-5.3%
<b>Broadband access lines - wholesale <sup>4)</sup></b>	<b>36</b>	<b>66</b>	<b>81.5%</b>	<b>36</b>	<b>66</b>	<b>81.5%</b>
- Business	36	66	81.5%	36	66	81.5%
<b>TV customers</b>	<b>383</b>	<b>393</b>	<b>2.6%</b>	<b>383</b>	<b>393</b>	<b>2.6%</b>
- Residential	362	370	2.3%	362	370	2.3%
- Business	22	23	6.9%	22	23	6.9%
<b>thereof IPTV</b>	<b>338</b>	<b>335</b>	<b>-0.9%</b>	<b>338</b>	<b>335</b>	<b>-0.9%</b>
- Residential	317	314	-1.1%	317	314	-1.1%
- Business	20	21	3.4%	20	21	3.4%
<b>thereof Cable TV</b>	<b>6</b>	<b>6</b>	<b>0.1%</b>	<b>6</b>	<b>6</b>	<b>0.1%</b>
- Residential	6	6	0.1%	6	6	0.1%
- Business	0	0	4.4%	0	0	4.4%
<b>thereof Satellite TV</b>	<b>40</b>	<b>53</b>	<b>32.2%</b>	<b>40</b>	<b>53</b>	<b>32.2%</b>
- Residential	38	50	31.2%	38	50	31.2%
- Business	1	2	62.7%	1	2	62.7%
<b>Fixed-line customers</b>	<b>1</b>	<b>2</b>	<b>9.1%</b>	<b>1</b>	<b>2</b>	<b>9.1%</b>
<b>VPN connection points</b>	<b>4</b>	<b>5</b>	<b>5.3%</b>	<b>4</b>	<b>5</b>	<b>5.3%</b>
<b>Broadband retail ARPA (monthly average for the period in HRK)</b>	<b>128</b>	<b>128</b>	<b>0.1%</b>	<b>128</b>	<b>126</b>	<b>-0.9%</b>
- Residential	127	126	-0.4%	126	125	-1.4%
- Business	135	138	2.8%	133	136	1.7%
<b>TV ARPU (monthly average for the period in HRK)</b>	<b>76</b>	<b>80</b>	<b>5.2%</b>	<b>74</b>	<b>80</b>	<b>8.5%</b>
- Residential	75	79	5.1%	73	79	8.2%
- Business	93	98	5.4%	86	96	12.7%

Data lines in 000						
<b>Total data lines</b>	<b>5</b>	<b>5</b>	<b>-4.8%</b>	<b>5</b>	<b>5</b>	<b>-4.8%</b>

Wholesale customers in 000						
CPS (Carrier Pre-Selection)	25	16	-35.1%	25	16	-35.1%
NP (Number portability) users/number	702	767	9.3%	702	767	9.3%
ULL (Unbundled Local Loop)	170	170	0.1%	170	170	0.1%

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

2) Payphones excluded

3) Includes ADSL, FTTH and Naked DSL

4) Includes Naked Bitstream + Bitstream

5) Total traffic is generated by fixed retail mainlines as defined in note 1.

## Highlights:

- Undisputed market leadership in all categories
  - Successful value strategy: customers increasingly choosing high value-for-money offers
  - Extended portfolio of services to maximize value for customers
  
- Leading through innovation
  - 24 mobi - first media virtual network
  - HOP: attractive handset financing for most innovative devices
  - Leading convergence: Max Obitelj (4 play)
  - Leading in content: enriched exclusive TV content (Formula One, HBO premium)
  - Extension of attractive ICT/cloud services portfolio on ICT marketplace
  - Most advanced data center services in new Selska facility
  - September 2014 – starts offer of fiber optic Ultra MAX packages at standard MAX prices

### Mobile telecommunications

The mobile customer base decreased by 2.5%, from 2,392,000 customers in Q3 2013 to 2,332,000 customers in Q3 2014, mainly as a result of aggressive competitive offers and the decrease of customers with double SIM cards due to the continuing trend of favourable flat and cross net offers.

The number of postpaid customers was 3.8% higher than in Q3 2013, coming from both residential (by 5.3%) and business (by 1.7%) segments. This was the result of the strong promotion of successful and attractive Plan tariffs and handsets as well as mobile internet offers. Offers such as changes in split contract instalment amounts, HOP and tweaking of Plan tariffs in Q1 helped to stabilize and increase mobile share. Nevertheless, the postpaid customer base is not high as might have been expected because of the increased government fee for mobile radio frequency, which has had to be passed on to the customer via price increases starting from 1 July 2014.

HT has further expanded the coverage of its 4G network based on LTE (Long Term Evolution) technology providing its customers from smaller towns and villages access to the fastest mobile internet available. Also, additional promotion of mobile internet tariffs based on the 4G network continued. Further strengthening its position as an innovator, HT was the first to introduce the HOP - Hoću opet promijeniti (I Want to Change it Again) - service, enabling customers to change and upgrade their smartphones at favourable prices within the duration of an existing contract.

Prior to the beginning of the new school year, HT introduced a Back2school offer for young people that includes the Pričam&surfam option of three months for no fee as well as a Parental Control service, which helps both children and parents to avoid undesirable situations and removes concerns about safety-related issues, with two months for no fee. Furthermore, a campaign in cooperation with eKupi was launched in Q3 offering special discounts for buying school books and supplies.

The number of prepaid customers was 7.5% lower than in Q3 2013 due to strong competition and an overall decline in the prepaid market. The ongoing MNP and retention efforts in the prepaid segment as well as the focus on additional value for HT prepaid customers are currently underway in an effort to mitigate this ongoing decline.

As part of its mission to offer innovation and quality, HT introduced a brand new offer for its prepaid users featuring unlimited texting, telephoning and internet as well as a Parental Control service. For

just HRK 30 a month, users can choose between several different options, namely, Pričam&surfam, Pišem&surfam and Pričam&pišem, tailored to suit customers' needs.

The Simpa offer has been further enriched with new internet and 4G options and the "Prejaka Mala" option provides unlimited text messages, 1GB mobile internet and a thousand minutes for cross net calls at a very affordable price of HRK 15 per week. The Simpa option was additionally promoted offering additional MB for every top up during the promotion period as well as attractive Sony smartphones. A new bonbon campaign was introduced, continuing to offer additional value through a new attractive 4G mobile internet option. Moreover, bonbon customers are able to receive 50% discount on the first monthly package for every top up of HRK 80 or 50 % discount on two monthly packages for every top up of HRK 160.

In May 2014, together with the 24sata daily HT launched 24mobi, the first media virtual network in this part of Europe.

Minutes of usage per average customer in Jan-Sep 2014 increased by 8.4% compared to the same period the previous year due to the introduction of flat offers and offering of bundles with high amount of minutes in postpaid and prepaid tariffs, in line with overall market trends.

Blended ARPU decreased by 5.2% compared to Jan-Sep 2013 as a result of a very competitive market driven by attractive offers for customers. Additionally, the economic situation and EU regulations on roaming prices, which started on 1 July 2013, also impacted ARPU development. The share of customers with higher tariffs increased due to relatively low upfront prices of high end smartphones (split contract effect) and continuous upsell activities.

#### **Fixed line**

By the end of September 2014, total fixed access mainlines of 1,067,000 were 7.7% lower than in September 2013. The decline, apparent in both segments, was enhanced by the telecommunication market trend of fixed to mobile and IP substitution, regulation and enforced competition and T-HT continues to undertake proactive and reactive churn prevention offers and activities.

Fixed telephony users generated 1,180 million minutes in Jan-Sep 2014. That was 21.4% lower than in the same period of 2013 as a result of a shrinking customer base and fixed to mobile substitution.

Fixed voice ARPA decreased by 9.2% in comparison to the previous year as a result of the above mentioned general market trends.

#### **Internet**

The broadband retail customer base in Q3 2014 was 2.2% lower than in the same period the previous year, reaching 617,000 due to stronger competition and aggressive offers in the market.

In Jan-Sep 2014, broadband retail ARPA was 0.9% below Jan-Sep 2013. Residential ARPA was 1.4% lower due to migrations to flat packages and bundled offers, while business ARPA was 1.7% higher. To mitigate the decrease, T-HT continues to promote MAX2/MAX3 packages accompanied by attractive tablet offers. Furthermore, Ultra MAX fibre optic packages have started to be offered at the price of standard MAX packages for first three months of usage.

The TV customer base is growing steadily. As a result of continuous service and program offer improvements, 393,000 customers were achieved at the end of September 2014 which was a 2.6% increase from the previous September.

TV ARPU is 8.5% up on Jan-Sep 2013 owing to premium content (additional program packages, video on demand) and enriched exclusive TV content with MAX Auto Moto GP (Formula 1) and HBO premium (incl. HBO GO streaming service) TV packages.

Satellite TV, which is an extension of the traditional IPTV service, continues to grow - with continuous improvements in the offer providing more value for customers - and is expected to contribute significantly to overall TV success, resulting in 32.2% more customers than in Q3 2013. Attractive promotions continued offering 50% discount on the Basic or Basic Extra package monthly fee for first nine months and one month of using additional packages free of charge (HBO & Cinemax package and Sport Plus Package) for activations during the promotional period.

In Q3 2014, T-HT proceeded to promote its convergent and joint mobile/fixed activities, further promoting MAXobitelj, together with Mobile net+ tariffs and MAX3 packages followed by a TV campaign that highlighted features such as the best sport content and fastest Internet everywhere.

#### **Data**

The number of data lines fell 4.8% compared to Q3 2013. Traditional data lines have been decreasing as T-HT focuses on promoting migration to IP based products.

#### **Wholesale**

At the end of September 2014 there were 170,000 active ULL lines and 66,000 broadband wholesale access lines (DSL and naked DSL lines). Compared to last year, the ULL market is stagnating due to a higher focus on alternative operators to broadband services.

The number of WLR lines reached 118,000 compared to 112,000 at the end of September 2013.

As a consequence of the WLR offer, the number of "pure" CPS customers was reduced to the level of 16,000 at the end of September 2014, a decrease of 9,000 compared to same period last year.

At the end of September 2014 there were 767,000 ported numbers recorded from HT's fixed network to other fixed networks, which is 9.3% above last year. Growth in the number of ported numbers compared to last year is mainly connected with growth of ULL and NBSA services.

Visitor roaming services were a major source of international wholesale revenue in 2014. The application of EU regulated prices (from 1 July 2014) contributed to significant growth in the usage of roaming services by foreign visitors in the HT mobile network and by HT retail users abroad. Visitors generated 32.4% more voice originating minutes and 168.0% more data traffic than the last year. At the same time, on the cost side, HT's mobile customers generated 62.1% more roaming originated voice traffic in foreign countries and 348.7% more data traffic compared to the same period last year.

Total capacity of data and IP services sold to foreign operators increased by 22.0% contributing to wholesale international revenue.

The third significant contributor to wholesale international revenue is the termination and transit of international voice traffic. Total international voice traffic volume terminated into the HT mobile

network decreased by 14.2% compared to 2013, while international traffic toward HT fixed networks decreased by 12.8% compared to same period last year.

## ICT

Continuous growth in all portfolio segments was driven by T-HT Group's strategic focus in the area of Cloud and Managed Solutions. The Cloud portfolio was extended in Q3 with new services: Office 365, Cloud Security and Waste Management.

The ICT Marketplace now provides an extensive number of services as follows: Cloud Virtual server, Cloud Data Center, Virtual desktop, Cloud Call Center, Cloud Legal regulation, Cloud Exchange mail and Sharepoint, Cloud Storage, Waste Management, Operator, On-line meeting, Spontania video meeting, Spontania Classroom, SugarCRM, Microsoft Office 365, Cloud Security, Cloud Mobile Device Management, and free applications (FileZilla, AbiWord, WinRar, Opera).

HT successfully delivered complex ICT solutions, together with Combis and other ICT Enterprise partners. Combis delivered few big projects in the area of Professional services, IT infrastructure and IP communication.

In cooperation with Končar Group, Croatian Telekom introduced one of the highest category Data Centers in this part of Europe. The Data Center enables storage and remote monitoring of ICT infrastructure, resulting in significant savings in operational business and secure and optimal equipment usage.

## 3. Group financial performance

### 3.1 Revenue

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Voice revenue	836	706	-15.5%	2,510	2,065	-17.7%
Non voice revenue	734	719	-2.1%	2,112	2,132	0.9%
Other service revenue	121	163	34.3%	344	443	28.8%
Terminal equipment	46	72	57.8%	144	217	51.0%
Miscellaneous <sup>1)</sup>	49	194	294.7%	145	283	95.8%
<b>Revenue <sup>2)</sup></b>	<b>1,786</b>	<b>1,854</b>	<b>3.8%</b>	<b>5,255</b>	<b>5,141</b>	<b>-2.2%</b>

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +49 million) made for Jan-Sep 2013.

2) Due to new classification of revenue 2013 slightly changed in structure.

Total consolidated revenue decreased by 2.2% to HRK 5,141 million in Jan-Sep 2014 from HRK 5,255 million in Jan-Sep 2013. The decrease was driven by voice revenue (HRK 444 million), but partially offset by increase in miscellaneous revenue (HRK 139 million), other service revenue (HRK 99 million), terminal equipment (HRK 73 million) and non voice revenue (HRK 20 million).

This trend in revenue follows negative trends seen in previous years due to the deteriorating economic situation and growing competition, on the back of a high number of flat tariff offers and strict regulation of the fixed business.

The contribution of subsidiaries in Group revenue increased and amounted for Iskon to HRK 276 million in Jan-Sep 2014 (Jan-Sep 2013: HRK 251 million) and for Combis to HRK 299 million (Jan-Sep 2013: HRK 237 million).

Optima Telekom's contribution to the Group amounted to HRK 77 million and consisted of HRK 113 million of Optima Telekom third party contribution, which was presented in the whole amount under Miscellaneous and HRK 36 million of inter-company relations that decreased mainly non voice wholesale revenue.

Total consolidated revenue increased by HRK 68 million, or 3.8%, to HRK 1,854 million in Q3 2014 from HRK 1,786 million in Q3 2013. This increase was driven by miscellaneous revenue (HRK 145 million), other service revenue (HRK 42 million) and terminal equipment revenue (HRK 26 million).

This positive development was partially offset by a decrease in voice revenue (HRK 130 million) and non voice revenue (HRK 15 million), in line with the negative trend seen in previous years, due to the deteriorating economic situation and intensifying competition owing to a high number of flat tariff offers and the strict regulation of the fixed business.

From a total uplift of HRK 68 million, HRK 113 million refers to Optima Telekom third party contributions, while a decrease of HRK 44 million, or 5.7%, was recorded in the business segment and of HRK 1 million, or 0.1%, in residential.

### **Voice revenue**

Voice revenue declined by HRK 444 million, or 17.7%, in comparison with Jan-Sep 2013 and the fall was driven by lower fixed voice revenue (HRK 270 million or 19.9%) and mobile (HRK 175 million or 15.1%). The negative trend was visible in both the business (HRK 237 million, or 25.5%) and residential segment (HRK 208 million, or 13.1%).

In Jan-Sep 2014, fixed retail voice declined by HRK 174 million, or 15.1%. Of the total decrease, HRK 110 million, or 13.5%, came from residential and HRK 64 million, or 19.3%, from business. The decline was a result of the retail mainline fall of 7.7% compared to the same period in 2013, the ongoing fixed to mobile substitution trend due to strong mobile offers which are much more attractive than fixed voice propositions and a strong regulatory environment. Consequently, the number of minutes dropped by 21.4% and ARPA voice per access declined by 9.2%.

The fixed wholesale voice decrease (HRK 96 million, or 46.9%) was mainly driven by lower revenue from international voice services, as international hubbing traffic declined, and by international MTR from July 2014. Furthermore, the price drop in national termination and origination led to lower national voice revenue.

The mobile voice decline (HRK 175 million, or 15.1%) came from both segments; residential by HRK 98 million, or 12.8%, and business by HRK 77 million, or 19.6%. The negative trend was a result of the drop in postpaid and prepaid retail revenue and MTC revenue decline.

The postpaid retail revenue decrease of HRK 61 million, or 10.8%, mostly came from business, while residential was almost on the same level as in the same period last year. The business decrease (HRK 59 million, or 21.0%) was influenced by lower average price of usage in spite of stable minutes of use per average customer. Despite a slightly higher customer base, up 1.7%, prices were lower due to fierce price competition in a saturated mobile market, in a continuously unfavourable macro-economic environment. In addition, EU regulation as of 1 July 2013 led to lower prices in roaming. All the above mentioned led to an ARPU decrease.

However, residential postpaid revenue fell by HRK 2 million, or 0.6%. The postpaid customer base recorded continuous growth, especially after the introduction of Plan tariffs. In spite of a higher share of customers on Plan bundle tariffs, voice revenue was lower due to a higher share of non voice traffic included in bundles.

The prepaid retail revenue decrease of HRK 48 million, or 15.0%, was caused by a decrease in the customer base of 7.5% and lower ARPU. The customer base was lower due to strong competition and an overall decline in the prepaid market. Lower ARPU was an outcome of the higher focus on prepaid data packages in 2014, providing affordable data traffic for prepaid customers, and accelerating the trend of substituting voice services with data.

MTC revenue declined by HRK 65 million, or 31.0%, as a result of price decreases from January 2014 in national mobile to mobile traffic (Jan-Sep 2014: HRK 0.1282 vs. Jan-Sep 2013: HRK 0.1933), and from July 2014 in international traffic.

The decline in voice revenue of HRK 130 million, or 15.5%, was driven by falls in both fixed voice revenue (HRK 97 million, or 21.7%) and mobile voice revenue (HRK 33 million or 8.5%). This negative trend was also visible in both the business segment (HRK 67 million, or 21.7%) and residential segment (HRK 63 million, or 12.0%).

In Q3 2014, fixed retail voice declined by HRK 53 million, or 14.2%. Of the total decline, HRK 34 million, or 12.6%, was reported by the residential segment and HRK 19 million, or 18.3%, by the business segment. This was the result of a 7.7% fall in retail mainlines compared to the same period the previous year, along with the ongoing trend of fixed to mobile substitution due to mobile offers that are far more attractive than fixed voice propositions and a tight regulatory environment. Consequently, the number of minutes dropped by 19.8% and ARPA voice per access declined by 8.3%.

The fall in fixed wholesale voice (HRK 44 million, or 57.9%) was mainly driven by lower revenue from international voice services, as international hubbing traffic declined, as well as lower international MTR from July 2014 (Q3 2014: HRK 0.32 vs. Q3 2013: HRK 0.45).

The fall in mobile voice (HRK 33 million, or 8.5%) was evident in both segments – falling in residential by HRK 30 million, or 11.3%, and business by HRK 4 million, or 2.8%. This negative development was the result of a fall in postpaid and prepaid retail revenue and lower MTC revenue, only partially offset by higher visitors revenue.

### **Non voice revenue**

Non voice revenue increased by HRK 20 million, or 0.9%, in the first nine months of the year in comparison to the same period last year. The positive trend was the result of an increase in mobile data revenue and TV.

Mobile data growth was a result of a continued trend towards the substitution of traditional voice and SMS services with data, a higher volume of data traffic included in tariff bundles and an increasing share of customers with smartphones. The higher number of customers in Plan tariffs, which include multimedia and large data packages, contributed to data revenue growth.

The TV revenue increase was driven by a higher number of TV customers, up 2.6%, as well as higher average revenue per user for TV, up 8.5%. This development was a result of promotions of additional packages and efforts focused on Satellite TV customer acquisition, especially in rural areas. Also, the proactive communication of the MAXobitelj offer continued throughout the whole year, supporting the TV services promotional initiatives.

This positive revenue trend was partially offset by lower SMS revenue, visitors revenue, ADSL, traditional data, wholesale revenue and other fixed revenue.

The drop in visitor revenue was a result of lower prices (owing to the implementation of EU regulation from 1 July 2013), although usage increased. Lower ADSL revenue was the result of lower broadband customer base, down 2.2%, and ARPA, down 0.9%, related to customer migrations to flat packages and bundle offers. A decrease in traditional data revenue was driven by migration to IP data and price competition on the Ethernet market.

Wholesale fixed non voice revenue fell, primarily due to inter-company relations related to Optima Telekom (HRK 30 million). Excluding this, wholesale revenue would be HRK 16 million higher, mostly due to an increase in infrastructure revenue due to growth in the NBSA and BSA customer base, despite price decreases.

Of the total increase in non voice revenue, HRK 60 million, or 4.7%, came from residential, while business was HRK 40 million, or 4.8%, lower.

Non voice revenue decreased by HRK 15 million, or 2.1%, in Q3 2014 in comparison to Q3 2013, primarily driven by a decrease in fixed by HRK 26 million, or 5.5%, and partially offset by an increase in mobile of HRK 11 million, or 4.0%. Of the total decline in non voice revenue, a decrease of HRK 25 million, or 8.4%, was reported by the business segment, while residential recorded a rise of HRK 9 million, or 2.1%.

This negative development in fixed was primarily driven by lower wholesale revenue (HRK 23 million, or 30.6%), due to inter-company transactions related to Optima Telekom (HRK 30 million). Excluding this, wholesale revenue would be HRK 7 million higher, largely due to increase in infrastructure revenue as a result of the growth in the NBSA and BSA customer base, despite price decreases. Fixed retail revenue was HRK 3 million lower, primarily due to lower traditional data revenue driven by migration to IP data and price competition on the Ethernet market.

The increase in mobile non voice revenue was primarily driven by data revenue growth resulting from the ongoing trend of substitution of traditional voice and SMS services with data, the higher volume of data traffic included in tariff bundles and an increasing share of customers with smartphones. A

higher number of customers in Plan tariffs that include multimedia and large data packages also contributed to data revenue growth. This was partially offset by lower visitors revenue as a result of a price drop (due to EU regulation), although usage increased, as well as lower SMS revenue.

#### **Other service revenue**

The increase in other service revenue of HRK 99 million, or 28.8%, in comparison to Jan-Sep 2013, was driven by higher ICT revenue (HRK 94 million) and revenue from E-Tours (HRK 4 million). ICT revenue growth came mainly from Combis' professional services, IT infrastructure and direct banking solutions (HRK 62 million), and HT specific ICT solutions for key accounts, Cloud and managed services (HRK 34 million), while Iskon was slightly lower (HRK 3 million).

The increase in other service revenue of HRK 42 million, or 34.3%, in comparison to Q3 2013, was driven by higher ICT revenue (HRK 38 million) and revenue from E-Tours (HRK 2 million). Combis contributed HRK 27 million, as it performed ahead of expectation in Professional services, while HT contributed HRK 14 million, mainly derived from IT solutions and Cloud services. Iskon made a HRK 3 million negative contribution, due to a significant project related to HT Mostar that was delivered in Q3 2013.

#### **Terminal equipment**

Terminal equipment revenue increased by HRK 73 million or 51.0% in comparison to Jan-Sep 2013. Of the total increase, HRK 60 million, or 60.3%, came from residential, while HRK 13 million, or 30.1%, from business.

This increase was the result of revenue in mobile as a result of the introduction of split contract (the entire handset revenue is recognized at the moment of the handset sale to the customer). This effect was partially offset by lower prepaid handset revenue due to less attractive handsets prices than last year and consequently a lower number of customers taking handsets. Furthermore, there was a different handset and tariff mix in comparison to last year.

Terminal equipment revenue increased by HRK 26 million, or 57.8%, in comparison with Q3 2013. Of the total increase, HRK 20 million, or 60.8%, was in residential, while HRK 7 million, or 50.2%, in business. This improvement was mainly the result of higher reported revenue in mobile as a result of split contract, but was partially offset by a change in the handset/tariff mix and lower prepaid handset revenue.

#### **Miscellaneous**

An increase in Miscellaneous revenue of HRK 139 million, or 95.8%, in comparison to Jan-Sep 2013, was mainly driven by Optima Telekom third party revenue in amount of HRK 113 million. Excluding this, the increase of HRK 25 million was mostly result of the new fee introduced from 1 July 2014, which has been passed on to mobile customers as a result of the new fee enforced by the Government and higher revenue from the energy business (HRK 5 million), which was started in Q4 2013. The decrease in national roaming revenue, coming from lower prices, partially offset this positive development.

The increase in miscellaneous of HRK 145 million, or 294.7%, in comparison to Q3 2013, was mainly driven by the third party revenue contribution from Optima Telekom of HRK 113 million.

## **3.2 Operating expenses**

Total consolidated operating expenses increased by HRK 102 million, or 3.2%, to HRK 3,292 million in Jan-Sep 2014. This increase was particularly due to an increase in other expenses, employee benefits expenses, material expenses and the write down of assets, and partially offset by higher capitalized work performed by the Group.

Total consolidated operating expenses increased by 10.6%, or HRK 108 million, to HRK 1,126 million in Q3 2014 from HRK 1,018 million in Q3 2013. This increase was primarily driven by higher other expenses (HRK 51 million), material expenses (HRK 42 million), employee benefits expenses (HRK 22 million) and the write down of assets (HRK 10 million). This was partially offset by capitalized work performed by the Group (HRK 17 million).

### **3.2.1 Material expenses**

Material expenses increased from HRK 1,414 million in Jan-Sep 2013 to HRK 1,439 million in Jan-Sep 2014, as a result of higher merchandise, material and energy expenses (HRK 145 million) and partially offset by lower services expenses (HRK 120 million).

The increase in merchandise costs was mainly driven by higher ICT revenues and mobile revenues, while fixed merchandise was lower compared to the same period last year.

The ICT merchandise increase was a consequence of higher ICT revenues. The mobile merchandise cost increase was mostly driven by the residential segment, due to a higher number of postpaid acquired and retained customers taking handsets as well as due to a higher share of high value handsets sold partially due to the introduction of the split contract model. The decrease in the fixed segment, driven by residential, was a result of lower customer acquisition and retention related merchandise costs due to reduced marketing campaigns with gadget offers. In Q1 2013 there was a strong ADSL retention campaign.

The decrease in energy costs of HRK 7 million was mainly a result of savings made by shutting down 20 exchanges as part of the PSTN migration in Q4 2013 and Q1 2014.

The decrease in services expenses of 17.0% mainly came from lower telecommunication costs and copyright fees.

International telecommunication costs declined (HRK 72 million), mainly due to lower international hubbing traffic and lower average roaming unit cost. The negative effect of lower average roaming unit costs was partially offset by higher usage. From the total decrease, HRK 75 million came from the business and HRK 9 million from the residential segment, but it was partially offset by higher costs coming from Optima Telekom third parties in the amount of HRK 12 million.

Domestic telecommunication costs declined (HRK 26 million), mainly due to lower fixed (FTR) and mobile (MTR) unitary termination prices. From total decrease, HRK 19 million came from the residential and HRK 19 million from the business segment, but the decline was partially offset by higher costs coming from Optima Telekom third parties in amount of HRK 11 million.

Lower copyright fees (HRK 29 million), mostly driven by the residential segment, were caused by a higher share of capitalized content rights contracts. However, there was a higher number of TV customers and number of additional TV packages, especially sport and HBO packages.

Material expenses increased from HRK 465 million in Q3 2013 to HRK 506 million in Q3 2014 as a result of higher merchandise, material and energy expenses (HRK 74 million), offset by lower service expenses (HRK 32 million).

The increase in merchandise costs was mainly driven by higher ICT merchandise and higher mobile merchandise costs.

A decrease in services expenses of 12.9%, or HRK 32 million, mainly resulted from lower telecommunication services costs (HRK 22 million) and copyright fees (HRK 19 million), partially offset by higher other services purchased costs (HRK 8 million).

The fall in international telecommunication services costs (HRK 17 million) was mainly due to lower international hubbing traffic and a decline in average roaming unit cost, and was partially offset by higher usage and impact of third party in amount of HRK 12 million related to Optima Telekom.

Domestic telecommunication costs decreased (HRK 5 million), mainly due to lower FTR and MTR combined with a decrease in traffic. Of the total decline, HRK 9 million was in the business segment and HRK 8 million in residential, and these falls were slightly offset by third party in amount of HRK 11 million related to Optima Telekom.

Copyright fees declined by HRK 19 million. This fall was driven by the impact of higher content as a result of the scope and value of contracts capitalized, a figure that was partially offset by higher costs for contracts recognized as opex mainly due to the change in subscriber numbers from Q3 2013 (The Walt Disney Company Limited VoD, Marc Dorcel, Hrvatska radiotelevizija, part of HDS).

### **3.2.2 Employee benefits expenses**

Total employee benefits expenses increased by HRK 42 million, or 4.9%, to HRK 914 million in Jan-Sep 2014.

Excluding redundancy costs (Jan-Sep 2014: HRK 115 million vs. Jan-Sep 2013: HRK 66 million) and the Optima Telekom contribution of HRK 15 million, employee benefits expenses decreased by HRK 22 million. This was mainly due to the lower cost for gross wages because of a lower number of FTEs, and lower rights from the new Collective agreement valid from 1 July 2014, but partially offset by a higher contribution on salaries arising from changes to the contribution law as of 1 April 2014.

The number of FTEs decreased from 5,626 in September 2013 to 5,174 in September 2014 mainly due to the transfer of 631 FTEs from HT's technology unit for the construction and maintenance to Ericsson Nikola Tesla from 1 September 2014. In addition, the decrease in the number of FTEs was the result of a Headcount Restructuring program and reorganization. This was partially offset by new employments arising from the company transformation and Optima Telekom contribution with 410 FTEs.

Total employee benefits expenses increased by 8.3% to HRK 291 million in Q3 2014 from HRK 268 million in Q3 2013.

Excluding redundancy cost (Q3 2014: HRK 25 million vs. Q3 2013: HRK 6 million) and the Optima Telekom contribution of HRK 15 million, employee benefits expenses decreased by HRK 12 million. This was mainly due to the lower cost of gross wages as a result of a lower number of FTEs, and reduced rights from the new Collective agreement valid from 1 July 2014, but partially offset by a higher contribution on salaries coming from the changed contribution law as of 1 April 2014.

### **3.2.3 Other expenses**

Other expenses increased by HRK 49 million, or 5.5%, to HRK 940 million in Jan-Sep 2014. The negative impact of higher consultancy costs, maintenance and external employment was partially offset by lower rental and leasing, sales commissions, advertising, other expenses, licences and postal charges.

Consultancy costs increased mainly due to work on structural reforms and securing financial results.

The increase in maintenance was mostly driven by a higher number of fault repair 1st and 2nd level activities due to bad weather conditions in Gorski kotar and Slavonija. Maintenance costs from Optima Telekom also contributed to the cost increase.

The increase in temporary employment mainly came from promotion through direct sales channels as well as from support on remote fault repairs and engagements of agency technicians in terms of the network.

The decline of rental and leasing was a result of headquarter reallocation and optimization of contracts for electronic communication infrastructure and base stations.

The sales commission decrease was primarily driven by the residential segment (HRK 10 million) mainly due to promotion via direct sales channels such as door-to-door, online and telesales. However, business sales commissions also increased by HRK 4 million due to stronger sales activities via indirect partners, while Optima Telekom contributed an additional HRK 1 million.

The decline in advertising costs is mainly due to reduced advertising campaigns.

Other expenses decreased mainly due to the reversal of Optima Telekom's discounting effect of receivables made last year since in H1 2014 Optima Telekom's receivables were converted into investment, but partially offset by higher penalties.

The decline in licences costs is mainly due to lower HAKOM fees for radio relay links and T Brand licences.

The decrease in postal charges is mainly a result of greater usage of e-bills and lower negotiated unit prices with postal services provider.

Other expenses increased by 17.8%, or HRK 51 million, to HRK 337 million in Q3 2014. This increase resulted from higher maintenance, consultancy costs, advertising, external employment and sales commission.

The increase in maintenance costs was primarily due to a higher number of fault repair 1st and 2nd level activities, SLA contracts and the effects of the outsourcing project. In addition, maintenance costs from Optima Telekom also contributed to the increase.

An increase in advertising expenses was largely related to the intensification of promotional campaigns in 2014: the Football World cup campaign in July, HNS sponsorship, Simpa Prejaka promotion, production of Ultra Max and 4G, and the energy services campaign.

An increase in temporary employment arose largely from promotions via direct sales channels as well as from support required for remote fault repairs and the engagements of agency technicians in the network part of the business.

Sales commissions increased due to a strong performance via indirect partners and as a result of the Optima Telekom contribution.

### **3.3 Write down of assets**

The assets write down increased by HRK 14 million, or 25.8%, to HRK 67 million in Jan-Sep 2014. This increase was mainly the result of adjusted receivables related to wholesale operators.

The assets write down increased by 87.7%, or HRK 10 million, to HRK 21 million in Q3 2014. This increase was mainly the result of adjusted receivables related to wholesale operators.

### **3.4 Depreciation and amortization**

Depreciation and amortization were higher than in the same period last year, up HRK 54 million, or 5.6%, mainly due to higher content capitalization and an Optima Telekom contribution of HRK 19 million.

Depreciation and amortization were by 9.4% higher than in Q3 2013 (Q3 2014: HRK 352 million; Q3 2013: HRK 322 million) mainly due to higher content capitalization and the inclusion of a contribution by Optima Telekom of HRK 19 million.

### 3.5 T-HT Group profitability

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Revenue	1,786	1,854	3.8	5,255	5,141	-2.2%
EBITDA before exceptional items	792	769	-2.9%	2,214	2,049	-7.5%
Exceptional items <sup>1)</sup>	6	25	286.9%	66	115	73.1%
EBITDA after exceptional items	786	744	-5.3%	2,148	1,934	-9.9%
EBIT (Operating profit)	463	391	-15.6%	1,189	922	-22.5%
Net profit	394	315	-20.0	964	717	-25.6%
EBITDA margin before exceptional items	44.3%	41.5%	-2.8 p.p.	42.1%	39.9%	-2.3 p.p.
EBITDA margin after exceptional items	44.0%	40.1%	-3.9 p.p.	40.9%	37.6%	-3.3 p.p.
EBIT margin	25.9%	21.0%	-4.9 p.p.	22.6%	17.9%	-4.7 p.p.
Net profit margin	22.1%	17.0%	-5.1%	18.3%	13.9%	-4.4 p.p.

1) Exceptional items refer to redundancy costs totalling HRK 115 million in Jan-Sep 2014 and HRK 66 million in Jan-Sep 2013.

EBITDA before exceptional items decreased by 7.5%, or HRK 165 million, to HRK 2,049 million in Jan-Sep 2014. Both lower revenue (HRK 113 million, or 2.2%) and higher operating expenses (HRK 54 million, or 1.7%) had a negative impact on EBITDA development.

Other operating income increased by HRK 2 million, or 2.8%, compared to Jan-Sep 2013, mainly as a result of higher income from penalties and fees related to a court decision in the collection process (HRK 31 million), partially offset by lower real estate sales (HRK 28 million).

The Optima Telekom contribution to Group EBITDA was HRK 21 million and consisted of HRK 55 million of Optima Telekom third party contributions and HRK 34 million of inter-company relations. Consolidated net profit after non controlling interests decreased by 25.6% to HRK 717 million in Jan-Sep 2014 from HRK 964 million in Jan-Sep 2013. This decrease was primarily a result of EBITDA trends, further impacted by higher depreciation and amortization (HRK 54 million) and lower net financial income (HRK 46 million), partially offset by lower taxation (HRK 63 million) and the contribution of non controlling interests (HRK 2 million).

The negative contribution of financial income of HRK 46 million was mainly the result of higher interest expenses (HRK 14 million), largely driven by the effects of content capitalization, lower income from investment in joint ventures (HRK 9 million), lower exchange rate gains (HRK 8 million), losses from the disposal of financial assets (HRK 7 million) and lower income from interest on cash at bank (HRK 7 million).

Optima Telekom contributed to Group net profit a loss of HRK 1 million.

EBITDA before exceptional items decreased by 2.9%, or HRK 23 million, to HRK 769 million in Q3 2014. The decline in EBITDA was driven by an 8.8%, or HRK 89 million, rise in operating expenses and a fall in other operating income of 9.4%, or HRK 2 million, which was partly offset by a revenue increase of 3.8 %, or HRK 68 million.

Other operating income decreased by HRK 2 million, mainly as a result lower discounts from vendors.

Consolidated net profit after non controlling interests decreased by 20.0% to HRK 315 million in Q3 2014 from HRK 394 million in Q3 2013. This decrease was primarily a result of a fall in EBITDA and was additionally impacted by higher depreciation and amortization (HRK 30 million) and lower net financial income (HRK 26 million), but partially offset by lower taxation (HRK 17 million) and the contribution of non controlling interests (HRK 2 million).

### **3.6 Balance sheet**

The total value of assets increased by 0.8% in comparison to the previous year end, primarily driven by non-current assets mainly due to the consolidation of Optima Telekom.

Without the impact of consolidation, assets would be 3.0% lower than the previous year. This would be the result of lower non current assets, mostly due to lower investments in property plant and equipment, and the impact of higher depreciation and amortization on intangible assets.

Total issued capital and reserves decreased from HRK 10,700 million at 31 December 2013 to HRK 10,665 million at 30 September 2014, mainly due to dividend payment in May 2014 in the amount of HRK 736 million offset by net profit for 2014 in amount of HRK 717 million.

The increase in Subscribed share capital of HRK 694 million was due to partial reinvestment of profit for 2013.

Total non-current liabilities increased by HRK 474 million, or 171.4%, mainly due to the consolidation of Optima Telekom, from reprogrammed liabilities in the prebankruptcy settlement. Excluding this, the increase in non-current liabilities would be 23.2%, mostly due to higher liabilities related to retransmission rights.

Total current liabilities decreased by HRK 337 million to HRK 1,506 million at 30 September 2014 mainly due to the settlement of higher payables for capital expenditures and international traffic at year end.

### **3.7 Cash flow**

Cash flow from operating activities is T-HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

Compared to Jan-Sep 2013, net cash flow from operating activities slightly decreased by 0.4%. Lower net profit in 2014 was partially offset by the positive development in the working capital mainly as a result of decrease of receivables in 2014 (lower volume of receivables especially for domestic receivables including lower roaming prices, and due to stronger wholesale receivables collection in 2014). In addition, there is a positive development on other cash flow decreases mainly as result of less severance paid in 2014.

Net cash flow from investing activities increased by 138.2% mainly as a result of a significantly higher maturity of financial assets (mostly time deposits) in Jan-Sep 2014, due to lower investment into time deposits with a maturity over three months and due to lower capital expenditures in Jan-Sep 2014.

Net cash flow from financing activities increased by HRK 944 million, or 56.0%, mainly due to a lower dividend payment in May 2014 in the amount of HRK 736 million, due to the partial reinvestment of earned profit from 2013 (the previous year's dividend payment was in July in the amount of HRK 1,679 million).

### 3.8 Capital expenditure

in HRK million	Q3 2013	Q3 2014	<i>change</i>	Jan-Sep 2013	Jan-Sep 2014	<i>change</i>
<b>T-HT Group</b>	<b>245</b>	<b>235</b>	<b>-4.1%</b>	<b>857</b>	<b>727</b>	<b>-15.2%</b>
Capex / Revenue ratio	13.7%	12.7%	-1.0 p.p.	16.3%	14.1%	-2.2 p.p.

Capital expenditure of HRK 727 million in Jan-Sep 2014 was down 15.2%, or HRK 130 million, compared with the same period the previous year. Optima Telekom contributed HRK 11 million.

In 2014, T-HT continues to focus on further development of the network infrastructure, increasing broadband access capacity and availability, enabling IP transformation of network and technology basis of the Company to secure business continuity and long-term sustainability of T-HT market position.

T-HT continues with its strategic project focused on mobile broadband deployment, enabling outperformance of the competition in mobile broadband with respect to coverage, capacity, scalability, performance of network and the continuation of a single RAN project. Modernization of the radio access network project has been completed, with 99.7% of total mobile access locations modernized. Coverage and access capacity of mobile broadband increased through 29 new 2G, 100 new 3G and 36 new 4G services. At the end of September 2014, T-HT's 4G network reached 44% of population and its 3G network had 77% population coverage indoor.

The implementation of the all-IP service platform is a strategic priority for the business transformation in the period from 2012 to 2015, so T-HT also continues with strategic project of PSTN migration, enabling fixed voice service continuity with the efficient transformation from obsolete TDM technology to IP. In Q1 2014, 10 local exchanges were shut down (in total 21 so far) and there is an additional plan to switch off 25 local exchanges by the end of 2014 (in total 46 by end of year). By the end of September 2014, in total 789,910 customers have been migrated, representing 90.3% of the end-2014 target.

The upgrade of MAXtv To Go platform with more video quality profiles and with dedicated iOS and Android client applications was undertaken. The new capacity of the system is 10 times higher, enabling up to 10,000 concurrent users.

IT activities and accomplishments were focused to technology to bring into existence the 'digital company' business model and 'on-line' business model transformation, convergence of the business

portfolio and consolidation of information systems and business support (main projects: Energy services, DWH fix enabler, MAXobitelj, Office 365, Split contract, etc.).

In the area of Cyber & Data security, the ISO 27001 certificate was revalidated, SIEM (Security Information Event Management) system implemented and new 42 security requirements were adopted.

Capital expenditure of HRK 235 million in Q3 2014 was down 4.1%, or HRK 10 million, compared with Q3 2013.

This was primarily the result of lower investment in Q3 2014 within the Network - other (HRK 18 million), Real estate (HRK 16 million) and Combis (HRK 3 million), but partially offset by higher investment in Content provider costs (HRK 15 million) and Optima (HRK 11 million).

The lower investment within Network is mainly related to the MPLS core project (HRK 16 million), Terastream project (HRK 23 million) and Access & core development projects (HRK 6 million), but this was partially offset by higher investment in the PSTN migration project (HRK 29 million).

The decrease in Real estate investment was mainly related to the Data Center Selska (HRK 11 million), Fire protection (HRK 1 million) and the refurbishment of a building in Zagreb Draškovićeve (HRK 1 million).

#### **4. Overview of segment profitability**

Following the financial consolidation of Optima Telekom into Group results as of Q3 2014, the Group's operating segments are Residential business unit, Business business unit, Network and support functions and Optima consolidated unit.

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

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

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

Companies under T-HT's full ownership - ISKON, Combis, KDS and E-Tours - are part of the above mentioned segments, following the same structure as the parent Company.

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

revenue details that are only reported in the whole amount on the Miscellaneous revenue line. According to the “Chinese wall” introduced by the regulator, access to Optima Telekom figures is limited. Consequently, only financial consolidation is undertaken, while Optima Telekom non financial KPIs are not included into Group achievements.

In the financial reports, the Group’s segments are reported by contribution to EBITDA before exceptionals. The revenues and expenses of the segments include primary results.

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

#### 4.1 Residential Segment

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Voice revenue	527	464	-12.0%	1,580	1,373	-13.1%
Non voice revenue	441	450	2.1%	1,279	1,339	4.7%
Other service revenue	0	3	614.9%	2	5	235.0%
Terminal equipment	33	53	60.8%	100	160	60.3%
Miscellaneous <sup>1)</sup>	15	45	201.0%	39	72	81.9%
<b>Total Revenue <sup>2)</sup></b>	<b>1,017</b>	<b>1,015</b>	<b>-0.1</b>	<b>3,000</b>	<b>2,948</b>	<b>-1.7%</b>
<b>Operating expenses <sup>3)</sup></b>	<b>290</b>	<b>310</b>	<b>6.8%</b>	<b>929</b>	<b>922</b>	<b>-0.7%</b>
<b>Contribution to EBITDA before EI</b>	<b>726</b>	<b>705</b>	<b>-2.9</b>	<b>2,071</b>	<b>2,025</b>	<b>-2.2%</b>

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +26 million) made for Jan-Sep 2013.

2) Due to new classification of revenue 2013 slightly changed in structure.

3) Operating expenses per segment for 2013 changed in comparison to originally reported in 2013 due to organisational changes in 2014.

#### 4.2 Business Segment

in HRK million	Q3 2013	Q3 2014	change	Jan-Sep 2013	Jan-Sep 2014	change
Voice revenue	308	241	-21.7%	929	693	-25.5%
Non voice revenue	293	268	-8.4%	834	794	-4.8%
Other service revenue	121	160	32.4%	343	438	27.8%
Terminal equipment	13	19	50.2%	44	58	30.1%
Miscellaneous <sup>1)</sup>	34	36	5.0%	105	98	-6.6%
<b>Total Revenue <sup>2)</sup></b>	<b>769</b>	<b>725</b>	<b>-5.7%</b>	<b>2,255</b>	<b>2,080</b>	<b>-7.8%</b>
<b>Operating expenses <sup>3)</sup></b>	<b>322</b>	<b>340</b>	<b>5.4%</b>	<b>973</b>	<b>1,011</b>	<b>3.9%</b>
<b>Contribution to EBITDA before EI</b>	<b>447</b>	<b>385</b>	<b>-13.9%</b>	<b>1,282</b>	<b>1,069</b>	<b>-16.6%</b>

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +23 million) made for Jan-Sep 2013.

2) Due to new classification of revenue 2013 slightly changed in structure.

3) Operating expenses per segment for 2013 changed in comparison to originally reported in 2013 due to organisational changes in 2014.

### 4.3 Network and support functions

in HRK million	Q3 2013	Q3 2014	<i>change</i>	Jan-Sep 2013	Jan-Sep 2014	<i>change</i>
Other operating income <sup>1)</sup>	18	16	-9.4%	82	85	2.8%
Operating expenses	398	392	-1.6%	1,221	1,185	-3.0%
<b>Contribution to EBITDA before EI</b>	<b>-381</b>	<b>-376</b>	<b>1.2%</b>	<b>-1,139</b>	<b>-1,100</b>	<b>3.4%</b>

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK -49 million) made for Jan-Sep 2013

2) Operating expenses per segment for 2013 changed in comparison to originally reported in 2013 due to organisational changes in 2014.

### 4.4. Segment Optima Telekom consolidated

in HRK million	Q3 2013	Q3 2014	<i>change</i>	Jan-Sep 2013	Jan-Sep 2014	<i>change</i>
Revenue	-0	113	-	0	113	-
Operating expenses		58	-		58	-
<b>Contribution to EBITDA before EI</b>	<b>0</b>	<b>55</b>	<b>-</b>	<b>0</b>	<b>55</b>	<b>-</b>

## 5. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2013 made public, there were no material changes to the Group's risk profile in the period under review.

## **6. Underlying Group 2014 outlook unchanged, with revenue modified to reflect Optima Telekom consolidation:**

### **Revenue**

The Croatian economy remains sluggish, with no sign of recovery still since entering recession in 2009. Unemployment has remained at high levels, with many companies undertaking restructuring measures while both public debt and the budget deficit have increased. Current expectations are for slightly negative GDP growth in 2014 as well.

Telecommunication spending in both the residential and corporate sectors has also tightened while competitive pressure and a stringent domestic and EU regulatory regime continue to exert pressure on the Group's business.

Despite this economic environment, with a stronger contribution from the Group's near core and new businesses, in the absence of the major one off negative impact from roaming revenues seen the previous year and with Optima Telekom fully consolidated as of 1 July 2014, the Group now expects a revenue decline of around 2%.

### **EBITDA before exceptional items**

The economic environment and revenue trends outlined above, along with changes in the revenue structure, will impact EBITDA accordingly. As a result, the Group expects a 2014 EBITDA margin of between 39% and 41%.

### **Investments**

T-HT Group has identified the need for a significant strategic shift with respect to investment, aimed at halting the downward trend in the performance of the business. To implement this strategy, the T-HT Group will intensify and focus its investment on infrastructure, customer processes and services whilst monitoring business expansion opportunities in both domestic and regional markets. Consequently capex investment amounting to more than HRK 1 billion is again expected in 2014.

## 7. T-HT Group Financial statements

### 7.1 Consolidated Income Statement

in HRK million (IFRS)	Q3 2013	Q3 2014	<i>change</i>	Jan-Sep 2013	Jan-Sep 2014	<i>change</i>
Voice revenue	836	706	-15.5%	2,510	2,065	-17.7%
Non voice revenue	734	719	-2.1%	2,112	2,132	0.9%
Other service revenue	121	163	34.3%	344	443	28.8%
Terminal equipment	46	72	57.8%	144	217	51.0%
Miscellaneous <sup>1)</sup>	49	194	294.7%	145	283	95.8%
<b>Revenue <sup>2)</sup></b>	<b>1,786</b>	<b>1,854</b>	<b>3.8%</b>	<b>5,255</b>	<b>5,141</b>	<b>-2.2%</b>
Other operating income <sup>1)</sup>	18	16	-9.4%	82	85	2.8%
<b>Total operating revenue</b>	<b>1,803</b>	<b>1,870</b>	<b>3.7%</b>	<b>5,337</b>	<b>5,226</b>	<b>-2.1%</b>
<b>Operating expenses</b>	<b>1,018</b>	<b>1,126</b>	<b>10.6%</b>	<b>3,190</b>	<b>3,292</b>	<b>3.2%</b>
Material expenses	465	506	8.9%	1,414	1,439	1.8%
Merchandise, material and energy expenses	213	287	34.6%	704	849	20.6%
Services expenses	251	219	-12.9%	710	590	-17.0%
Employee benefits expenses	268	291	8.3%	871	914	4.9%
Other expenses	286	337	17.8%	890	940	5.5%
Work undertaken by the Group and capitalised	-12	-29	135.5%	-40	-67	-69.9%
Write down of assets	11	21	87.7%	53	67	25.8%
<b>EBITDA</b>	<b>786</b>	<b>744</b>	<b>-5.3%</b>	<b>2,148</b>	<b>1,934</b>	<b>-9.9%</b>
Depreciation and amortization	322	352	9.4%	959	1,012	5.6%
<b>EBIT</b>	<b>463</b>	<b>391</b>	<b>-15.6%</b>	<b>1,189</b>	<b>922</b>	<b>-22.5%</b>
Financial income	9	8	-11.9%	38	23	-38.8%
Income/loss from investment in joint ventures	10	8	-24.0%	20	12	-42.7%
Financial expenses	-6	16	-351.1%	42	64	52.5%
<b>Profit before taxes</b>	<b>489</b>	<b>392</b>	<b>-20.0%</b>	<b>1,205</b>	<b>892</b>	<b>-26.0%</b>
Taxation	96	79	-17.4%	241	178	-26.3%
<b>Net profit</b>	<b>394</b>	<b>313</b>	<b>-20.6%</b>	<b>964</b>	<b>714</b>	<b>-25.9%</b>
Non controlling interest	0	-2	-	0	-2	-
<b>Net profit after non controlling interest</b>	<b>394</b>	<b>315</b>	<b>-20.0%</b>	<b>964</b>	<b>717</b>	<b>-25.6%</b>
Exceptional items	6	25	286.9%	66	115	73.1%
<b>EBITDA before exceptional items</b>	<b>792</b>	<b>769</b>	<b>-2.9%</b>	<b>2,214</b>	<b>2,049</b>	<b>-7.5%</b>

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +49 million) made for Jan-Sep 2013.

2) Due to new classification of revenue 2013 slightly changed in structure.

## 7.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2013	At 30 Sep 2014	Change
Intangible assets	1,358	1,476	8.7%
Property, plant and equipment	5,570	5,661	1.6%
Non-current financial assets	594	607	2.1%
Receivables	126	102	-19.0%
Deferred tax asset	60	54	-9.5%
<b>Total non-current assets</b>	<b>7,708</b>	<b>7,900</b>	<b>2.5%</b>
Inventories	115	144	25.0%
Asset held for sale	-	6	-
Receivables	1,457	1,334	-8.4%
Current financial assets	1,352	359	-73.5%
Cash and cash equivalents	2,039	3,045	49.3%
Prepayments and accrued income	149	135	-9.3%
<b>Total current assets</b>	<b>5,112</b>	<b>5,023</b>	<b>-1.8%</b>
<b>TOTAL ASSETS</b>	<b>12,820</b>	<b>12,922</b>	<b>0.8%</b>
Subscribed share capital	8,189	8,883	8.5%
Reserves	409	409	0.1%
Revaluation reserves	-1	2	266.5%
Retained earnings	662	672	1.6%
Net profit for the period	1,442	717	-50.3%
Non controlling interest	-	-18	-
<b>Total issued capital and reserves</b>	<b>10,700</b>	<b>10,665</b>	<b>-0.3%</b>
Provisions	132	131	-1.4%
Non-current liabilities	142	617	335.9%
Deferred tax liability	2	2	0.0%
<b>Total non-current liabilities</b>	<b>276</b>	<b>751</b>	<b>171.4%</b>
Current liabilities	1,724	1,344	-22.0%
Deferred income	120	135	12.4%
Provisions for redundancy	0	27	-
<b>Total current liabilities</b>	<b>1,844</b>	<b>1,506</b>	<b>-18.3%</b>
Total liabilities	2,120	2,257	6.5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12,820</b>	<b>12,922</b>	<b>0.8%</b>

### 7.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Jan-Sep 2013	Jan-Sep 2014	change
Profit before tax	1,205	894	-25.8%
Profit / loss attributable to NCI	0	-2	-
Depreciation and amortization	959	1,012	5.6%
Increase / (decrease) of current liabilities	-209	-239	-14.4%
(Increase) / decrease of current receivables	-64	119	287.6%
(Increase) / decrease of inventories	-31	-27	13.8%
Other cash flow increases/ decreases	-433	-336	22.2%
<b>Net cash inflow/outflow from operating activities</b>	<b>1,427</b>	<b>1,421</b>	<b>-0.4%</b>
Proceeds from sale of non-current assets	45	3	-93.7%
Proceeds from sale of non-current financial assets	1	2	44.5%
Interest received	22	15	-32.8%
Other cash inflows from investing activities	548	1,443	163.3%
<b>Total increase of cash flow from investing activities</b>	<b>616</b>	<b>1,463</b>	<b>137.5%</b>
Purchase of non-current assets	-857	-727	15.2%
Purchase of non-current financial assets	-75	-76	-1.8%
Other cash outflows from investing activities	-525	-338	35.7%
<b>Total decrease of cash flow from investing activities</b>	<b>-1,458</b>	<b>-1,141</b>	<b>21.7%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-842</b>	<b>322</b>	<b>138.2%</b>
<b>Total increase of cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-</b>
Repayment of loans and bonds	-1	-2	-17.3%
Dividends paid	-1,679	-736	56.2%
Repayment of finance lease	-4	-3	24.1%
Other cash outflows from financing activities	0	0	100.0%
<b>Total decrease in cash flow from financing activities</b>	<b>-1,685</b>	<b>-741</b>	<b>56.0%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-1,685</b>	<b>-741</b>	<b>56.0%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>3</b>	<b>3</b>	<b>9.9%</b>
Cash and cash equivalents at the beginning of period	3,146	2,039	-35.2%
Net cash (outflow) / inflow	-1,096	1,005	191.7%
<b>Cash and cash equivalents at the end of period</b>	<b>2,050</b>	<b>3,045</b>	<b>48.5%</b>

#### 7.4 Consolidated EBITDA reconciliation

in HRK million	Q3 2013	Q3 2014	<i>change</i>	Jan-Sep 2013	Jan-Sep 2014	<i>change</i>
<b>Segment Result (Contribution to EBITDA)</b>						
Residential Segment	726	705	-2.9%	2,071	2,025	-2.2%
Business Segment	447	385	-13.7%	1,282	1,069	-16.6%
Network and Support Functions	-381	-376	-1.2%	-1,139	-1,100	3.4%
Segment Optima Telekom Consolidated		55	-	0	55	-
<b>Total Contribution to EBITDA before SI of the Segments</b>	<b>792</b>	<b>769</b>	<b>-2.9%</b>	<b>2,214</b>	<b>2,049</b>	<b>-7.5%</b>
Special influences	6	25	286.9%	66	115	73.1%
<b>Total EBITDA</b>	<b>786</b>	<b>744</b>	<b>-5.3%</b>	<b>2,148</b>	<b>1,934</b>	<b>-9.9%</b>

#### 7.5 Group's revenue breakdown under former reporting structure

in HRK million	Q3 2013	Q3 2014	<i>change</i>	Jan-Sep 2013	Jan-Sep 2014	<i>change</i>
Mobile <sup>1)</sup>	749	781	4.3%	2,152	2,106	-2.1%
Fixed Telephony	351	301	-14.2%	1,095	926	-15.5%
Wholesale	150	83	-44.4%	427	317	-25.8%
IP Revenue	394	395	0.3%	1,170	1,186	1.4%
Data	24	20	-18.1%	77	63	-18.0%
ICT	108	147	35.3%	303	397	30.9%
Miscellaneous <sup>1)</sup>	10	122	1134.6%	31	138	338.2%
Energy	0	3	-	0	5	-
Other non telco services	0	2	-	0	4	-
<b>Revenue</b>	<b>1,786</b>	<b>1,854</b>	<b>3.8%</b>	<b>5,255</b>	<b>5,141</b>	<b>-2.2%</b>

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Mobile revenue (HRK +25 million) and Miscellaneous (HRK +24 million) was made for Jan-Sep 2013.

## 7.6. Notes to the condensed consolidated financial statements

### For the nine months ended on 30 September 2014

#### **Basis of preparation**

The condensed consolidated financial statements as of 30 September 2014 and for the nine months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

#### **Significant Accounting Policies**

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of HT's consolidated financial statements for the year ended 31 December 2013.

#### **Dividends**

On 29 April 2014 General Assembly of Hrvatski Telekom d.d. reached a decision on dividend distribution for 2013 in amount of HRK 736,961,436.00 (9.00 HRK per share).

Dividend was paid on 26 May 2014.

A part of the net profit amounting to HRK 694,000,000.00 is used to increase the share capital.

#### **Take-over of Optima Telekom**

On 11 September 2013, Hrvatski Telekom submitted to the Competition Agency complete notification of concentration of undertakings HT and Optima Telekom (acquisition of control over Optima Telekom by HT).

On 19 March 2014, the Competition Agency passed the decision by which the mentioned acquisition has been conditionally approved and measures and the terms that the party to the merger (HT and Optima) have to fulfill in order to eliminate the negative effects of the concentration on competition have been accepted as well.

HT announced on 18 June 2014, that it took over management of Optima Telekom for the period of 4 years, following the completion of the pre-bankruptcy settlement procedure and the adoption and registration of the decisions by the General Assembly of Optima Telekom. Consolidation of Optima's results has been postponed until the next reporting period.

#### **Segment information**

Business reporting format is determined to be Residential, Business, Network and Support Function and Optima Telekom consolidated segment as the Group's risks and rates of return are affected predominantly by differences in the market and customers. The segments are organised and managed separately according to the nature of the customers and markets that the services

rendered, with each segment representing a strategic business unit that offers different products and services.

The Residential Segment includes marketing, sales and customer services, focused on providing mobile, fixed line telecommunications and TV distribution services to residential customers.

The Business Segment includes marketing, sales and customer services, focused on providing mobile and fixed line telecommunications and systems integration services to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business in both fixed and mobile services.

The Network and Support Functions performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. The Network and Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

The Optima Telekom consolidated unit includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount on the Miscellaneous revenue line. According to the "Chinese wall" introduced by the regulator, access to Optima Telekom figures is limited.

The Management Board, as the chief operating decision maker, monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on contribution margin II or segment results (as calculated in the table below).

The Group's geographical disclosures are based on the geographical location of its customers.

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

Fully owned subsidiaries Iskon Internet, Combis, KDS and E-tours are consolidated within the respective operating segments.

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

Period ended 30 September 2013	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Total HRK millions
Segment revenue	3,000	2,255	-	5,255
<i>Service revenues, restated</i>	2,861	2,106	-	4,967
<i>Terminal equipment, restated</i>	100	44	-	144
<i>Other, restated</i>	39	105	-	144
Usage related direct costs	(230)	(277)	-	(507)
Income and losses on accounts receivable	(3)	(48)	-	(51)
Contribution margin I, restated	2,767	1,930	-	4,697
Non-usage related direct costs	(403)	(355)	-	(758)
Segment result, restated	2,364	1,575	-	3,939
Other income, restated	-	-	82	82
Other operating expenses	(304)	(301)	(1,268)	(1,873)

Depreciation, amortisation and impairment of non-current assets	-	-	(959)	(959)
Operating profit, restated	2,060	1,274	(2,145)	1,189
Capital expenditure	419	174	264	857
1 July 2013 to 30 September 2013	Residential	Business	Network & Support functions HRK millions	Total HRK millions
	HRK millions	HRK millions		
Segment revenue	1,017	768	-	1,786
<i>Service revenues, restated</i>	969	722	-	1,691
<i>Terminal equipment, restated</i>	33	13	-	46
<i>Other, restated</i>	15	34	-	49
Usage related direct costs	(80)	(100)	-	(180)
Income and losses on accounts receivable	4	(14)	-	(10)
Contribution margin I, restated	941	655		1,596
Non-usage related direct costs	(124)	(118)		(242)
Segment result, restated	817	537	-	1,354
Other income, restated	-	-	17	17
Other operating expenses	(92)	(92)	(401)	(585)
Depreciation, amortisation and impairment of non-current assets	-	-	(322)	(322)
Operating profit, restated	725	445	(706)	464
Capital expenditure	113	63	69	245

Period ended 30 September 2014	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Optima Telekom consolidated HRK millions	Total HRK millions
Segment revenue	2,948	2,080	-	113	5,141
<i>Service revenues</i>	2,717	1,924	-	-	4,641
<i>Terminal equipment</i>	160	58	-	-	218
<i>Other</i>	71	98	-	113	282
Usage related direct costs	(202)	(184)	-	(23)	(409)
Income and losses on accounts receivable	(10)	(53)	-	-	(63)
Contribution margin I	2,736	1,843	-	90	4,669
Non-usage related direct costs	(408)	(479)	-	(2)	(889)
Segment result,	2,328	1,364	-	88	3,780
Other income	-	-	85	-	85
Other operating expenses	(332)	(317)	(1,249)	(33)	(1,931)
Depreciation, amortisation and impairment of non-current assets	-	-	(1,012)	-	(1,012)
Operating profit	1,996	1,047	(2,176)	55	922
Capital expenditure	370	100	246	11	727
1 July 2014 to 30 September 2014	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Optima Telekom consolidated HRK millions	Total HRK millions
Segment revenue	1,015	725	-	113	1,853
<i>Service revenues</i>	918	669	-	-	1,587
<i>Terminal equipment</i>	53	20	-	-	73
<i>Other</i>	44	36	-	113	193
Usage related direct costs	(68)	(68)	-	(23)	(159)
Income and losses on accounts receivable	(8)	(12)	-	-	(20)
Contribution margin I	939	645	-	90	1,674
Non-usage related direct costs	(130)	(171)	-	(2)	(301)
Segment result,	809	474	-	88	1,373
Other income	-	-	16	-	16
Other operating expenses	(112)	(91)	(407)	(33)	(643)
Depreciation, amortisation and impairment of non-current assets	-	-	(352)	-	(352)
Operating profit	697	383	(743)	55	392
Capital expenditure	103	32	89	11	235

## **Relations with the governing company and its affiliated companies**

In the first nine months of 2014 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 2014 there were no changes in transactions among related parties which were specified in the annual financial report for 2013 and which had a significant impact on the financial position and operations of the Group in the first nine months of 2014.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first nine months of 2014 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 2014 the Group generated total revenue from related companies from international traffic to the amount of HRK 69 million (the first nine months of 2013: HRK 87 million), while total costs of international traffic amounted to HRK 62 million (the first nine months of 2013: HRK 44 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 19 million in the first nine months of 2014 (the first nine months of 2013: HRK 11 million).

### *Compensation of the Supervisory Board*

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 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, in the amount of 1.5 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, in the amount of 1.25 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, in the amount of 1.25 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 July 2013, the Supervisory Board established the Sustainability Committee. The Committee consists of three members, two external experts and one member of the Supervisory Board. Members of the Sustainability Committee who are not at the same time members of the Supervisory Board are entitled to monthly remuneration in the amount of 0.25 of the average net salary of employees of the Company paid in the preceding month. At this time, only one member

receives remuneration, which is not being paid directly to him but in line with his instruction, remuneration is paid out to the benefit of the Fund for award of scholarships to Croatian Homeland War veterans and their children.

In the first nine months of 2014 the Company paid a total amount of HRK 0.4 million (the first nine months of 2013: HRK 0.5 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 2014 the total compensation paid to key management personnel of the Group amounted to HRK 34 million (first nine months of 2013: HRK 36 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 directors of sectors of the Company, who are employed by the Group.

## **8. 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 2014 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. Kai-Ulrich Deissner, Member of the Management Board and Chief Financial Officer

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

Mr. Jens Hartmann, Member of the Management Board and Chief Operating Officer Business

Mr. Thorsten Albers, Member of the Management Board and Chief Technical and Chief Information Officer

Ms. Irena Jolić Šimović, Member of the Management Board and Chief Human Resources Officer

Zagreb, 30 October 2014

\*Until the appointment of the Chief Customer Experience Officer, he performs the managing tasks falling within the scope of competence of the Member of the Management Board and Chief Customer Experience Officer.

## **9. Presentation of information**

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

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

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

References to "Residential" are to business operations performed within the Company's Residential Segment.

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

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

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

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

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

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

## **10. 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](http://www.t.ht.hr)