Zagreb – 12 February 2015

T-Hrvatski Telekom
Results for the year ended 31 December 2014

HT stabilized revenues and increases investments – 1.3 billion HRK for fast internet development

T-Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its audited results for the year ended 31 December 2014.

In 2014, Hrvatski Telekom has generated revenue amounting to HRK 6.908 billion. HT maintained its leading position in all segments of the telecommunications market, and revenue almost stabilized, with a minimal decline of 1.9 per cent in comparison with the previous year.

Stabilization of overall revenue was particularly impacted by stabilization of mobile communications revenue, as well as by revenue growth in the ICT segment, in mobile internet and in TV services.

Despite increased costs related to the Company's transformation, the deterioration of the business environment, the new radiofrequency fee and the change in revenue structure, EBITDA before exceptional items in 2014 amounted to HRK 2.786 billion, at an EBITDA margin before exceptional items of 40.3 per cent.

The net profit in 2014 amounts to HRK 1.142 billion. The Management Board and the Supervisory Board have made a proposal to the General Assembly that dividend be paid out at a rate of 50.7 per cent in relation to the profit generated by HT d.d. Therefore, a proposal is made to the General Assembly that a dividend of HRK 573.2 million be paid out, which is HRK 7 per share. The General Assembly will be convened for 29 April 2015, and this year, the proposal is to reinvest the HT d.d. net profit by increase of share capital from the Company's assets.

By transformation to a faster and more efficient organization

Throughout the entire year 2014, Hrvatski Telekom was facing a challenging business environment, marked by the continuation of the long-lasting economic crisis and, consequently, the contraction of the entire telecommunications market. Additional negative impact on the telecommunications industry came from changes in regulatory conditions, primarily from the introduction of the new fee for radiofrequency spectrum usage. While operating under such conditions, Hrvatski Telekom managed to maintain its leading position in all business segments and remained the leading provider of telecommunications services in Croatia.

2014 was a year of big transformation in Hrvatski Telekom. By implementation of numerous transformation measures in 2014, Hrvatski Telekom has become a faster and more efficient organization. A new organizational structure was set up, marked by 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 Company operates.

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

The year 2014 was also marked by intensive work on PSTN to IP migration, and until now 75.4% of residential and business customers have been migrated. Optima Telekom was fully consolidated into HT Group's financial statements as of 1 July 2014, following the takeover of control of OT by HT.

The plan for 2015 – Focus on customers and investments

The increase in the organization's efficiency, as implemented in 2014, is the first step in the process of improving quality of service and customer experience, which will be the focus of Hrvatski Telekom's operations in 2015. There is a lot of room for improvement in this area; the crucial target is to turn Hrvatski Telekom into a provider of the highest quality and fastest services on the Croatian market.

Planned investments for 2015 exceed HRK 1.3 billion, which is an increase of more than 25% as compared to 2014; the focus will be on further development of mobile and fixed infrastructure, improved broadband access availability and capacity and the finish of network IP transformation.

Commenting on the results for the year 2014, ***Davor Tomašković, President of the Management Board of Hrvatski Telekom*** *pointed out:*

"After the transformation conducted in 2014, Hrvatski Telekom is now a faster and more efficient organization. Financial data produce evidence that in 2014 we managed to stabilize revenue, particularly in the mobile segment, along with revenue growth in ICT, in mobile internet and in TV services.

We will go on with transformation; in 2015, our primary focus will be on improvement of the customer experience and on new investments.

We will increase investments in 2015 by 25 per cent and this will mainly be directed towards the development of technologies for fast internet – developing the fiber optic network and mobile internet.

We have already taken the first step by investing in additional radiofrequency spectrum, which enabled us to be the first operator in Croatia to achieve double internet access bitrates in our 4G network from 75 Mbit/s to 150 Mbit/s.

Until the end of 2015, we plan to achieve coverage in fixed broadband internet access in excess of 50 per cent, while in the mobile network; coverage will exceed 60 per cent at speeds of up to 150 Mbit/s.

Our leadership in technology is the basis for development and for offering our customers the best customer experience."

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A conference call for analysts and investors will be held at 14:00 UK time / 15:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In	+44 (0) 2071 928 000
Conference ID	82573794

A replay of the call will be available until Thursday, 19 February 2015 using the following details:

International Dial In	+44 (0)1452 550 000
Replay Access Code	82573794

Full audited accounts for T-HT Group and HT d.d., other prescribed documentation as well as a presentation covering results for the 2014 financial year, can be downloaded from the T-HT web site. (www.t.ht.hr/eng/investors/) and are fully available in the Official Register of Prescribed Information (SRPI).

1. Review

1.1 Introduction

T-HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services.

1.2 Market overview

Fixed-line market

Fixed telephony remains highly competitive in Croatia, with 13 operators active in the market[3].

Fixed to mobile substitution is a key market driver in a declining fixed-line market. The number of fixed-line minutes of use (MOU) in the first nine months of 2014 decreased yoy by 14.6%.

In line with stipulations in the pre-bankruptcy settlement of Optima Telekom and following the completion of the Mandatory Convertible Loan instrument, HT and Optima Telekom signed on 30 July 2014 an agreement on the conversion of rights into share capital, resulting with an increase of share capital of Optima Telekom. HT gained an additional 10.88% stake and now holds 19.11% of the share capital of the Company.

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

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 has continued to contract, reaching an estimated penetration rate of 113.2% at the end of 2014 vs. 115.6% reported for the end of 2013. All operators in the Croatian market are striving to increase the number of postpaid customers by offering different tariff bundles with attractive handset/tablet offers. HT has maintained its market share of total mobile customers, with an estimated 46.7% at the end of 2014.

Mobile usage pattern have evolved during 2014 as a result of increases in smartphone and tablet usage. Mobile customers use mobile data access more than ever thanks to increasing usage of ''Over the Top'' services. As a result, total Croatian mobile market minutes of use (MOU) grew at slower rate (1.2% yoy) in first nine months of 2014 and the number of SMSs sent sharply decreased yoy by 8.6% in the same period1.

[1] Source: Croatian Post and Electronic Communications Agency

A new mobile fee was introduced on 23 May 2014 by the Croatian government to increase the radiofrequency spectrum fee three-fold.

Internet

The Croatian fixed broadband market grew yoy by 3.1% in Q3 2014 reaching 943,966 fixed broadband connections. DSL is still the dominant broadband technology. T-HT is the largest fixed broadband operator in Croatia. At the end of 2014, T-HT Group had 614,231broadband access lines.

T-HT offers fiber optic Ultra MAX packages at the same price as 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 enabling the expansion of T-HT's fiber optic network, which enables fast Internet speeds to meet modern day requirements of rapid, uninterrupted consumption of digital content.
The Croatian pay TV market grew yoy by 6.6% in Q3 2014, reaching 728,367customers[3]. T-HT is the pay -TV market leader thanks to its IPTV service, MAXtv.

Data

T-HT has maintained its leading position in the data market, which 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 the liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remained high in Q4 2014 with a major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 72,604 at the end of Q4 2014 (an increase of 76.0% compared to 2013). Due to high churn and migration to broadband services, the number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing, resulting in 167,941 ULL access and 115,555 WLRs at the end of the period.
In January 2014, wholesale prices were amended for the following regulated services: call origination, fixed and mobile call termination. The standard offer for regulated leased lines was amended (prices were decreased) as of 1 September, 2014.
In addition, from October 2014 the standard offer for wholesale broadband access (BSA and NBSA) was amended. The main change is related to a new model of charging wholesale broadband access resulting in lower wholesale prices.

ICT

According to the latest IDC Adriatic analysis[1], evidence of growth in the Croatian ICT market is expected for 2014. Preliminary analysis shows that the Hardware segment (PCs, servers, storage, printers, tablets) grew about 6%. Compared to 2013, some growth is also expected in IT services and Packaged software segments. The strongest growth is again expected for Cloud services.

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[1]Source: IDC Adriatics, January 2015

1.3 Economic background

HT Group has maintained its leading position in the Croatian telecommunications market across all areas of operation in 2014 in the face of competitive pressure, falling consumption and the continuation of the tough economic situation in the country.

Croatia has been grappling with recession and poor prospects of recovery for six consecutive years. Lack of reforms, high unemployment, low competitiveness and high public debt were the key factors generating poor economic results in 2014. Real growth in Croatian GDP in 2014 is expected at around -0.7%, while the registered unemployment rate remains high at a yearly average of 21%[2].

Household consumption remains depressed by weaknesses in the labour market and high levels of consumer pessimism. Disposable income reported for October 2014 was almost the same level as the previous October (at an average HRK 5,532, which is 0.1% higher in real terms)[3].

Investment activity did not recover in 2014. Private investments have been halted by an unfavourable investment environment, while public investments largely depend on foreign capital and the capability to draw down EU funds.

1.4 Supervisory Board Decisions

1.4.1 Financial Statements

The Management Board and Supervisory Board of Hrvatski Telekom d.d. have adopted the Annual Financial Statements of the Company and the Consolidated Financial Statements of T-HT Group, with the auditor's report, for the 2014 financial year.

The Annual Financial Statements will be forwarded to the General Assembly.

1.4.2 Net profit distribution

It is determined that Hrvatski Telekom d.d. in the business year ending with 31 December 2014 realized net profit in the amount of HRK 1,130,669,208.06.

Net profit amount stated herein shall be used accordingly:

- A part of net profit in the amount of HRK 940,000,000.00 shall be used to increase the share capital from Company's own capital.
- A part of net profit in the amount of HRK 34,700,000.00 shall be allocated to legal reserves.
- A part of net profit in the amount of HRK 155,969,208.06 shall be allocated to retained earnings.

Out of the retained earnings from the year 2009, an amount of HRK 573,192,228.00 shall be paid out as dividend to shareholders, in the amount of 7.00 HRK per share.

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[2] Sources: Latest macro forecast for Croatia by EU Commission, Nov. 2014, Croatia Country Report by Raiffeisen Research, Nov. 2014, Croatian National Bank, Bulletin No. 200, Jan. 2015
[3] Source: Central Bureau of Statistics

Dividend referred to under Item 2 hereof shall be paid out to all shareholders that are registered as shareholders at the Central Depository & Clearing Company (SKDD) on May 11th 2015 (record date). Date on which share of Hrvatski Telekom d.d. will be traded without dividend payment right is May 8th 2015 (ex date). Dividend payment claim matures on May 25th 2015 (payment date).

The General Assembly will be convoked shortly and it is expected to be held during April.

1.4.3 Share capital increase using the net profit of the Company

The Management Board and Supervisory Board of Hrvatski Telekom d.d. proposed share capital increase from the Company's own capital, to be forwarded to the General Assembly for decision making.

Share capital of the Company is increased from the amount of HRK 8,882,853,500.00 for the amount of HRK 940,000,000.00 to the amount of HRK 9,822,853,500.00 out of net profit realized in the year 2014.

Share capital of the Company is increased without allocation of new shares by proportionate increase of participation of all issued shares in the Company's share capital.

Decision upon the increase of Company's share capital from Company's own capital is based on annual financial statements for the year 2014.

This Proposal shall be referred for approval to Supervisory Board of Hrvatski Telekom d.d., for further referral to the General Assembly of the Company as a joint proposal of Management Board and Supervisory Board.

1.5 Regulatory environment

Successful concentration of HT and Optima Telekom

In April 2014, the concentration of HT and Optima Telekom notification process before Competition Agency was completed. On 19 March 2014, the Competition Agency conditionally approved HT and Optima Telekom concentration for a maximum period of four years. HT is obliged to act in accordance with various measures whereby the independence of Optima's business in accordance with the principle of impartiality is guaranteed. After the expiration of three years, HT is obliged to start a process of selling all its shares in Optima.

HAKOM issues final decision on fixed calls and retail leased lines deregulation

After public consultations and notification of the proposals to the European Commission, on 25 April 2014 and 5 November 2014 HAKOM issued final decisions on fixed calls and retail leased lines markets deregulation. With deregulation, all existing regulatory obligations imposed on these markets have been annulled for HT (also in the case of fixed calls for Iskon). Deregulation of leased lines came into force on 25 July 2014 and deregulation of fixed calls comes into force on 5 February 2015. The market for access to the public telephone network remains regulated.

FTTH wholesale 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 fiber (FTTH) existing network. Whereas wholesale bitstream FTTH prices were based on 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 that were cost oriented and calculated based on actual cost. In order to ensure the further application of lower fiber retail and wholesale prices for the existing FTTH network, HT submitted to HAKOM new cost calculations for bitstream FTTH prices for the existing FTTH network. After public consultations and notification to the European Commission, on 17 December 2014 HAKOM issued a final decision by which the prices come into force on 1 January 2015.

New Bylaw on Certificates and Fees for Rights of Way came into force on 27 December 2014

After public consultations on proposal for the Amendments to the Bylaw on Certificates and Fees for the Rights of Way (Bylaw), on 17 December 2014 HAKOM issued its final decision on the Amendments to the Bylaw that came into force on 27 December 2014, and which result in a 9% increase of fees that were set in the prior Bylaw. This is somewhat lower than the increase of more than 40% that HAKOM proposed in the initial Amendments to the Bylaw.

Amendments to the ordinance on payment of fees for license for use of addresses, numbers and radio frequency spectrum

On 23 May 2014, the Amendments to the Ordinance on payment of fees for the license for use of addresses, numbers and radio frequency spectrum were introduced. The said ordinance introduced a three-fold increase of the annual radio frequency fee as an additional measure of fiscal consolidation in 2014 in the State Budget, aimed at lowering the excessive deficit, in accordance with the decision of the Government issued on 17 April 2014.

The increase represents for Croatian Telecom an additional increase in the annual RF spectrum fee in the amount of HRK 138 million. In response to the increase, HT increased the prices of mobile services by introducing a 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).

Assignment of new radiofrequency spectrum in 1800 MHz area

On 17 December 2014, HAKOM issued a decision assigning HT a license for usage of the radio frequency spectrum for radio frequency block 2x10 MHz in radio frequency area 1869.9-1879.9/1774.9-1784.9 MHz. The license for this radio frequency block was issued for the period from 22 December 2014 until 18 October 2024.

New retail prices for 1 Mbit/s of Internet speed as universal services approved

On 17 December 2014, HAKOM issued a decision approving HT's retail prices for 1 Mbit/s of Internet speed as universal services and the prices came into force on 1 January 2015.

Scanning electronic communication infrastructure pilot for 2014 completed

On April 2014 HAKOM issued a decision imposing on HT the obligation to conduct geodetic scanning and to form geodetic elaborates for a certain quantity of electronic communications infrastructure in the area of eight municipalities and to enter those into an on-line database as of 1 December 2014. HT complied fully with the decision.

Bylaw on protection from electromagnetic fields
Despite a Ministry of Health initiative from April 2014 on introducing stricter limits on the permitted levels of electromagnetic fields at 22%, this initiative was not brought to fruition. Under the new Bylaw on protection from electromagnetic fields that came into force on 18 December 2014 the existing limits were not changed.

The existing limits are already 60% stricter than EU guidelines, making the Republic of Croatia one of the 10 EU countries in which the most stringent limits are applied for the purpose of protection of its citizens' wellbeing.

1.6 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.

1.7 Changes in reporting

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 a 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. Consequently 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.

1.8 Summary of key financial indicators

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Revenue	1,788	1,766	*-1.2%*	7,042	6,908	*-1.9%*
EBITDA before exceptional items	850	737	*-13.3%*	3,065	2,786	*-9.1%*
Exceptional items	0	37	-	66	152	*128.7%*
EBITDA after exceptional items	850	700	*-17.7%*	2,998	2,634	*-12.1%*
EBIT (Operating profit)	443	302	*-31.9%*	1,632	1,223	*-25.0%*
Net profit	478	426	*-10.9%*	1,442	1,142	*-20.7%*
EBITDA margin before exceptional items	47.6%	41.7%	*-5.8 p.p.*	43.5%	40.3%	*-3.2 p.p.*
EBITDA margin after exceptional items	47.6%	39.6%	*-7.9 p.p.*	42.6%	38.1%	*-4.4 p.p.*
EBIT margin	24.8%	17.1%	*-7.7 p.p.*	23.2%	17.7%	*-5.5 p.p.*
Net profit margin	26.7%	24.1%	*-2.6 p.p.*	20.5%	16.5%	*-3.9 p.p.*

in HRK million	At 31 Dec 2013	At 31 Dec 2014	change
Cash and cash equivalents	2,039	2,192	*7.5%*
Total assets	12,820	13,835	*7.9%*
Total issued capital and reserves	10,700	11,235	*5.0%*

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Net cash flow from operating activities	704	867	*23.2%*	2,131	2,288	7.4%

RESIDENTIAL SEGMENT

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Revenue	992	994	*0.2%*	3,992	3,942	*-1.3%*
Contribution to EBITDA before EI	729	662	*-9.3%*	2,800	2,687	*-4.0%*

BUSINESS SEGMENT

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Revenue	795	664	*-16.5%*	3,051	2,745	*-10.0%*
Contribution to EBITDA before EI	395	324	*-17.9%*	1,677	1,393	*-16.9%*

NETWORK & SUPPORT FUNCTIONS

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Contribution to EBITDA before EI	-274	-317	*-15.8%*	-1,413	-1,417	*-0.3%*

SEGMENT OPTIMA TELEKOM

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*

Revenue	0	108	-	0	221	-
Contribution to EBITDA before EI	0	68	-	0	123	-

1.9 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Twelve months to 31 Dec 2013	7.57	7.63	5.71	5.55
Twelve months to 31 Dec 2014	7.63	7.66	5.75	6.30

2. Business Review

Key operational data	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Mobile subscribers in 000						
Number of customers	**2,303**	**2,252**	**-2.2%**	**2,303**	**2,252**	**-2.2%**
- Residential	1,833	1,777	-3.1%	1,833	1,777	-3.1%
- Business	469	475	1.3%	469	475	1.3%
Number of postpaid customers	**1,070**	**1,099**	**2.7%**	**1,070**	**1,099**	**2.7%**
Number of prepaid customers	**1,232**	**1,153**	**-6.4%**	**1,232**	**1,153**	**-6.4%**
Minutes of use (MOU) per average customer	**175**	**188**	**7.5%**	**174**	**188**	**8.2%**
- Residential	158	171	8.2%	155	171	10.2%
- Business	246	257	4.3%	249	254	2.0%
Blended ARPU (monthly average for the period in HRK)	**80**	**79**	**-1.3%**	**83**	**79**	**-4.3%**
- Residential	69	70	0.9%	71	70	-1.4%
- Business	123	114	-7.5%	133	117	-11.6%
Blended non-voice ARPU (monthly average for the period in HRK)	**32**	**33**	**3.5%**	**31**	**33**	**8.8%**
SAC per gross add in HRK	**114**	**98**	**-14.3%**	**104**	**123**	**18.2%**
Churn rate (%)	**4**	**4**	**-0.4 p.p.**	**3**	**3**	**-0.2 p.p.**
Penetration (%) [1)]	**116**	**113**	**-2.4 p.p.**	**116**	**113**	**-2.4 p.p.**
Market share of subscribers (%) [1)]	**47**	**47**	**0.2 p.p.**	**47**	**47**	**0.2 p.p.**
Data subscribers (in 000)	**1,303**	**1,409**	**8.1%**	**1,303**	**1,409**	**8.1%**

1) Source: VIPnet's published Q4 2014 and Tele2's report for Q4 2014.

Key operational data	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**1,133**	**1,050**	**-7.3%**	**1,133**	**1,050**	**-7.3%**
- Residential	973	914	-6.1%	973	914	-6.1%
- Business	160	136	-15.0%	160	136	-15.0%
Fixed mainlines - wholesale (WLR)	**118**	**116**	**-2.2%**	**118**	**116**	**-2.2%**
- Residential	101	102	1.8%	101	102	1.8%
- Business	18	13	-25.0%	18	13	-25.0%
Total Traffic (mill. of minutes) [5]	**464**	**365**	**-21.5%**	**1,967**	**1,545**	**-21.4%**
- Residential	383	305	-20.4%	1,573	1,268	-19.4%
- Business	82	60	-26.6%	394	277	-29.7%
ARPA voice per access (monthly average for the period in HRK) [2]	**100**	**92**	**-8.0%**	**103**	**94**	**-8.9%**
- Residential	88	82	-6.2%	90	84	-6.9%
- Business	171	153	-10.2%	184	161	-12.1%
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**628**	**614**	**-2.3%**	**628**	**614**	**-2.3%**
- Residential	520	512	-1.7%	520	512	-1.7%
- Business	108	102	-5.1%	108	102	-5.1%
Broadband access lines – wholesale [4]	**41**	**73**	**76.0%**	**41**	**73**	**76.0%**
- Business	41	73	76.0%	41	73	76.0%
TV customers	**391**	**393**	**0.7%**	**391**	**393**	**0.7%**
- Residential	369	370	0.4%	369	370	0.4%
- Business	22	23	5.0%	22	23	5.0%
thereof IPTV	**340**	**333**	**-2.0%**	**340**	**333**	**-2.0%**
- Residential	320	312	-2.3%	320	312	-2.3%
- Business	21	21	1.6%	21	21	1.6%
thereof Cable TV	**6**	**6**	**0.2%**	**6**	**6**	**0.2%**
- Residential	6	6	0.2%	6	6	0.2%
- Business	0	0	2.9%	0	0	2.9%
thereof Satellite TV	**45**	**54**	**21.6%**	**45**	**54**	**21.6%**
- Residential	43	52	20.5%	43	52	20.5%
- Business	1	2	52.8%	1	2	52.8%
Fixed-line customers	**1**	**2**	**9.0%**	**1**	**2**	**9.0%**
VPN connection points	**5**	**5**	**17.1%**	**5**	**5**	**17.1%**
Broadband retail ARPA (monthly average for the period in HRK)	**126**	**126**	**-0.3%**	**127**	**126**	**-0.7%**
- Residential	125	124	-0.9%	126	124	-1.3%
- Business	133	137	2.7%	133	136	2.0%
TV ARPU	**79**	**80**	**1.5%**	**75**	**80**	**6.6%**

(monthly average for the period in HRK)						
- Residential	78	79	1.5%	75	79	6.4%
- Business	96	97	0.8%	88	97	9.3%

Data lines in 000						
Total data lines	**5**	**5**	**-4.6%**	**5**	**5**	**-4.6%**

Wholesale customers in 000						
CPS (Carrier Pre-Selection)	23	14	-37.1%	23	14	-37.1%
NP (Number portability) users/number	722	736	2.0%	722	736	2.0%
ULL (Unbundled Local Loop)	173	168	-2.7%	173	168	-2.7%

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 high value for money offers
  - Extended portfolio of services to maximize value for customers

- Financial outlook achieved, revenue and EBITDA declines slowed compared to 2013, net cash from operating activities improved compared to 2013

- 2014 significantly impacted by transformation activities through a number of key projects
  - IP migration – successfully implemented in 2014
  - Outsourcing of managed services to Ericsson successfully completed
  - Network and IT modernization (network capacities, quality and performance, digital company and online business model transformation, secured resources for INS (Integrated Network Strategy) rollout)
  - New, more customer-centric and agile organization created
  - New Collective Agreement negotiated in line with market
  - Headcount optimization
  - New strategic program – Horizont, defined in 2014 with priorities for 2015

- Leading through innovation
  - April 2014 - HT launched an innovative payment of e-invoices by credit and debit cards of all domestic and foreign banks
  - May 2014 – HT reached highest bitrate in Croatian mobile networks having achieved a data transmission rate 136 megabits per second
  - June 2014 - Hrvatski Telekom Data Center Opened. New Data Center provides accommodation, remote monitoring and management of ICT infrastructure, allowing savings in operations and safe and optimal operation of equipment.

- July 2014 - HT assigned key role within the DT Group in establishing technology centers for IPTV and IMS (IP Multimedia Subsystem)
- July 2014 – HT commenced the most competitive offer of electricity supply for households
- September 2014 - HT launched fiber optic Ultra MAX package offer, at the same price as standard MAX packages

Mobile telecommunications

The mobile customer base decreased by 2.2%, from 2,303,000 customers in 2013 to 2,252,000 customers in 2014, partially as a result of aggressive competitive offers and the decrease of customers with double SIM cards due to the continuing trend of attractive flat and cross net offers.

The number of postpaid customers was 2.7% higher than in 2013, coming from both residential (up 3.7%) and business (up 1.1%) segments. This resulted from proactive marketing of attractive Plan tariffs and handsets as well as mobile internet offers. Offers such as changes in split contract instalment amounts, HOP (Hoću Opet Promijeniti – I want to change it again) and tweaking of Plan tariffs undertaken in Q1 helped to stabilize and boost mobile share. Nevertheless, the postpaid customer base was strongly influenced by the increased government fee for the mobile radio frequency, which was passed on to customers via price increases 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. HT also continued the additional promotion of mobile internet tariffs based on the 4G network.

Furthermore, reinforcing its positioning 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 attractive prices within a contract's duration.

As an authorized Apple partner, in Q4 HT launched the sale of iPhone 6 and iPhone 6 Plus with attractive tariffs and options. During the promotional period of Christmas and New Year, HT offered regular tariff discounts, the fastest 4G internet on the Croatian market and additional discounts on top-class smartphones and tablets to all new and existing mobile customers.

The number of prepaid customers was 6.4% lower than in 2013, due to the overall decline of the prepaid market and strong competition. Ongoing MNP and retention efforts in the prepaid segment and initiatives to provide additional value for HT prepaid customers are being undertaken to mitigate the ongoing decline.

The Simpa offer was further enhanced with new internet and 4G options and the 'Prejaka Mala' option, that enables unlimited text messages, 1GB mobile internet and a thousand minutes for cross net calls at a very affordable price (HRK 15 per week). A new Simpa campaign - 'Omasti brk' - was introduced offering all new and existing customers double the amount they topped up with the first payment of the month of at least HRK 50.

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

HT also launched its innovative and unique Kupon2go service, that enables customers to receive SMS coupons with discounts when they are in the radius of 500m from HT partners offering discounts. The service is free of charge for all HT mobile service customers and number of partners is constantly rising.

Minutes of usage per average customer in 2014 increased by 8.2% compared to the same period the previous year due to the introduction of flat offers and bundles with a high volume of minutes in postpaid and prepaid tariffs, in line with overall market trends.

Blended ARPU decreased by 4.3% compared to 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, continued to impact ARPU.

Fixed line

By the end of 2014, fixed access mainlines totalled 1,050,000, down 7.3% from 2013. The decline, in both segments, was exacerbated by the overall telecommunication market trend of fixed to mobile and IP substitution, by regulation and by enforced competition. To counter this trend, T-HT has continued range of proactive and reactive churn prevention offers and initiatives.

Fixed telephony users generated 1,545 million minutes in 2014. That's 21.4% lower than in the previous year, as a result of the customer base shrinking and due to fixed to mobile substitution.

Fixed voice ARPA decreased by 8.9% in comparison to the previous year as a result of the general market trends outlined above.

Internet

The TV customer base increased by 0.7% from 391,000 customers in 2013 to 393,000 customers in 2014 as a result of continuous service and program offer upgrades.

TV ARPU rose 6.6% compared with 2013, driven by premium content (e.g. additional program packages and video on demand) and enriched exclusive TV content with MAX Auto Moto GP (Formula 1) and HBO premium TV packages. Moreover, HT introduced a new MAXtv package - Pickbox - which contains more than 70 hit series and 300 movies and covers the majority of Hollywood output.

Satellite TV, which is an extension of the Group's IPTV service, continues to grow with continuous improvements in the offer providing more value for customers. It is expected to contribute significantly to the overall success of TV, with customers rising 21.6% over 2013. The Group continued to promote attractive offers of 50% discount on Basic or Basic Extra package monthly fees for the first nine months and one month of additional packages free of charge (HBO & Cinemax package and Sport Plus Package) on activations during a specified period.

HT also continued to promote convergent and joint mobile/fixed offers including MAXobitelj, together with Mobile net+ tariffs and MAX3 packages, supported by a TV campaign. During the Christmas and New Year period, the MAXobitelj offer was further enhanced with an attractive mobile tariff, more mobile Internet and a high-end Samsung tablet.

The broadband retail customer base was 2.3% lower than in 2013, at 614,000, due to tougher competition and aggressive offers in the market.

At the same time, broadband retail ARPA was 0.7% lower than in 2013. Residential ARPA was 1.3% lower due to migrations to flat packages and bundle offers, while business ARPA was 2.0% higher. To mitigate the decrease, HT continues to promote MAX2/MAX3 packages accompanied by attractive tablet offers. Furthermore, Ultra MAX fibre optic packages are available at the price of standard MAX packages.

Data

The number of data lines in 2014 was 4.6% lower compared to 2013. Traditional data lines have been decreasing as HT continues to promote migration to IP based products.

Wholesale

At the end of 2014, there were 168,000 active ULL lines, down 2.7% in comparison to 2013. The ULL market has been decreasing due to a greater focus by alternative operators on broadband services. Broadband wholesale access lines (DSL and naked DSL lines) totalled 73,000.

The total number of WLR lines was 116,000, compared to 118,000 at the end of 2013.

As a consequence of WLR offer, the number of “pure” CPS customers was reduced to 14,000 at the end of 2014, a decrease of 37.1% compared to the previous year.

At the end of 2014, 736,000 numbers were ported from HT’s fixed network to other fixed networks, up 2.0% over 2013. The growth in the number of ported numbers compared to the previous year is mainly connected with the growth in NBSA services.

Visitor roaming services were a major source of international wholesale revenue in 2014. The application of EU regulated prices (starting from 1 July 2013, with a further decrease in prices from 1 July 2014) contributed to significant growth of roaming usage by foreign visitors in the HT mobile network and by HT retail users abroad. Visitors generated 32.2% more voice originating minutes and 168.6% more data traffic than the previous year. At the same time, HT's mobile customers generated 49.8% more roaming-originated voice traffic in foreign countries and 294.1% more data traffic compared to 2013.

The total capacity of data and IP services sold to foreign operators increased by 26.8% contributing to wholesale international revenue.

A third significant contributor to wholesale international revenue was termination and transit of international voice traffic. Total international voice traffic volume terminated into the HT mobile network increased by 3.3% compared to 2013, while international traffic inbound to the HT fixed network decreased by 18.3%.

ICT

Continuous growth in all portfolio segments was driven by T-HT Group's strategic focus in the area of Cloud and Managed Solutions.

ICT Marketplace now provides an extensive number of services: Cloud Call Center, Cloud Legal Regulation, Virtual Server, Virtual Desktop, Cloud Exchange Mail and Sharepoint, Cloud Storage, Waste Management, Teambox, Opinator, On-line meeting, Spontania Video Meeting, Spontania Classroom, SugarCRM and free applications (FileZilla, AbiWord, WinRar, Opera).

HT Group successfully delivered customized ICT solutions in the areas of Professional services, IT infrastructure and IP communication.

In cooperation with Končar Group, HT introduced one of the mostly highly accredited 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	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Voice revenue	751	635	-15.5%	3,261	2,700	-17.2%
Non voice revenue	709	672	-5.2%	2,821	2,804	-0.6%
Other service revenue	209	184	-11.9%	553	628	13.4%
Terminal equipment	60	80	35.2%	203	298	46.4%
Miscellaneous [1)]	59	195	231.0%	204	478	134.9%
Revenue [1)]	**1,788**	**1,766**	**-1.2%**	**7,042**	**6,908**	**-1.9%**

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

Total consolidated revenue recorded a slower decrease compared to 2013 with a 1.9% decline to HRK 6,908 million in 2014, compared to HRK 7,042 million in 2013. The decrease was driven by voice revenue (down HRK 561 million) and non voice revenue (down HRK 17 million), but partially offset by increase in miscellaneous revenue (up HRK 275 million), terminal equipment (up HRK 94 million) and other service revenue (up HRK 74 million).

This revenue trend represents a continuation of the negative trend seen in previous years, resulting from the deteriorating economic situation and growing competition, owing to a high number of flat tariff offers along with tight regulation of the fixed line business.

The contribution by subsidiaries to Group revenue increased and amounted for Iskon to HRK 371 million in 2014 (2013: HRK 335 million) and for Combis to HRK 418 million (2013: HRK 385 million).

The Optima Telekom contribution to Group revenue amounted to HRK 149 million and consisted of HRK 221 million of Optima Telekom third party revenue, entirely reported under Miscellaneous, and

HRK 73 million of inter-company transactions, lower due largely to a decrease in non voice wholesale revenue.

Total consolidated revenue decreased by HRK 21 million, or 1.2%, to HRK 1,766 million in Q4 2014 from HRK 1,788 million in Q4 2013. The decrease was driven by voice revenue (HRK 116 million), non voice revenue (HRK 37 million) and other service revenue (HRK 25 million) but partially offset by an increase in miscellaneous revenue (HRK 136 million) and terminal equipment (HRK 21 million).

This represents a continuation of the trend seen in previous years due to the deteriorating economic situation and intensifying competition, and tight regulation of the fixed business.

The contribution of the subsidiary Iskon to Group revenue increased to HRK 95 million in Q4 2014 (Q4 2013: HRK 84 million), while the Combis contribution decreased to HRK 120 million (Q4 2013: HRK 149 million).
The Optima Telekom contribution to the Group amounted to HRK 72 million and consisted of HRK 108 million of Optima Telekom third party revenue, which was presented in total under Miscellaneous, and HRK 36 million of inter-company transactions that decreased mainly due to non voice wholesale revenue.

Voice revenue

Voice revenue declined by HRK 561 million, or 17.2%, in comparison to 2013. This fall was driven by lower fixed voice revenue (down HRK 360 million, or 20.4%) and mobile (down HRK 201 million, or 13.4%). This falling trend was visible in both the business (down HRK 315 million, or 26.4%) and residential segments (down HRK 246 million, or 11.9%).

In 2014, fixed retail voice declined by HRK 223 million, or 14.8%. From this total decline, HRK 140 million, or 13.0%, was from residential and HRK 83 million, or 19.4%, was from business. The decline was a result of the following: a drop in retail mainlines of 7.3%, compared to 2013; ongoing fixed to mobile substitution, due to strong mobile offers that are more attractive than fixed voice propositions; and a tight regulatory environment. Consequently, the number of minutes dropped by 21.4% and ARPA voice per access declined by 8.9%.

The decrease in fixed wholesale voice (down HRK 137 million, or 51.9%) was mainly driven by lower revenue from international voice services, as international hubbing traffic declined, driven by a change in business model and re-routing of hubbing traffic. International MTR also declined from July 2014 (January 2014: HRK 0.45; July 2014: HRK 0.32 vs. January 2013: HRK 1.28; July 2013: HRK 0.45). Furthermore, a price drop in national termination and origination led to lower national voice revenue.

The decline in mobile voice (by HRK 201 million, or 13.4%) was seen in both segments; residential fell by HRK 106 million, or 10.6%, and business was down by HRK 95 million, or 19.0%. This fall was the result of a decline in MTC revenue and a drop in prepaid and postpaid retail revenue.

MTC revenue declined by HRK 84 million, or 30.4%, as a result of price decreases in national mobile to mobile traffic (January 2014: HRK 0.128; January 2013: HRK 0.195; July 2013: HRK 0.193) and in international traffic (January 2014: HRK 0.45; July 2014: HRK 0.32 vs. January 2013: HRK 1.28; July 2013 HRK 0.45).

A decrease in prepaid retail revenue of HRK 59 million, or 14.2%, was caused by a fall in the customer base of 6.4% and lower ARPU. Although the introduction of new fees resulted in customer transfer to prepaid, the customer base fell due to strong competition and the overall decline in the prepaid market. Lower ARPU was the outcome of a greater focus on prepaid data packages in 2014, providing affordable data traffic for prepaid customers, and consequently accelerating the substitution of voice services with data.

The decrease in postpaid retail revenue of HRK 53 million, or 7.3%, came from business, while residential contributed positively in comparison to the previous year. The decrease in the business segment of HRK 68 million, or 18.7%, was due to the lower average price of usage despite stable minutes of use per average customers. Despite a slight increase in the customer base of 1.1%, prices were lower due to fierce price competition in a saturated mobile market, as well as in roaming due to EU regulation, amid the continuation of the challenging macro-economic environment. These factors all resulted in decrease in ARPU.

However, residential postpaid revenue was higher, up HRK 14 million or 3.8%, due to a 3.7% rise in the customer base resulting from promotions for attractive Plan tariffs.

A voice revenue decline of HRK 116 million, or 15.5%, was driven by lower fixed voice revenue (down HRK 90 million, or 21.9%) and mobile (down HRK 26 million, or 7.7%). The decline was visible in both the business (down HRK 78 million, or 29.9%) and residential segments (down HRK 38 million, or 7.8%).

In Q4 2014, fixed retail voice declined by HRK 49 million, or 13.9%. Of this, a fall of HRK 30 million, or 11.7%, refers to residential and HRK 19 million, or 19.7%, to business. The decline was a result of retail mainlines falling by 7.3% compared to the same period the previous year, ongoing fixed to mobile substitution and a tight regulatory environment. Consequently, the number of minutes dropped by 21.5% and ARPA voice per access declined by 8.0%.

A fall in fixed wholesale voice (of HRK 41 million, or 69.1%) was mainly driven by lower revenue from international voice services, as international hubbing traffic declined, and lower international MTR from July 2014 (July 2014: HRK 0.32 vs. July 2013: HRK 0.45). Furthermore, a price drop in national termination and origination led to lower national voice revenue.

A mobile voice decline (by HRK 26 million, or 7.7%) came from both segments, with a fall in the business segment of HRK 17 million, or 16.9%, and in the residential segment by HRK 9 million, or 3.7%. The fall was the result of an MTC revenue decline, a drop in prepaid retail revenue and lower visitor revenue partially offset by an increase in postpaid retail revenue.
MTC revenue declined by HRK 19 million, or 28.5%, as a result of a price decrease in national mobile to mobile traffic (January 2014: HRK 0.1282 vs. July 2013: HRK 0.1933), and in international traffic (July 2014: HRK 0.32 vs. July 2013: HRK 0.45).

A prepaid retail revenue decrease of HRK 10 million, or 11.1%, was caused by a fall in the customer base of 6.4% and lower ARPU. Although the introduction of new fees resulted in customers transferring to prepaid, the customer base was lower due to strong competition and the overall decline of prepaid market. Lower ARPU was the outcome of a stronger focus on prepaid data packages in 2014, providing affordable data traffic for prepaid customers, and consequently accelerating the substitution of voice services with data.

Visitor revenue decreased by HRK 4 million, or 47.5%, due to lower prices.

A postpaid retail revenue rise of HRK 7 million, or 4.4%, was seen in the residential segment, while the business segment declined in comparison to the previous year. Residential postpaid revenue rose HRK 16 million, or 17.5%, due to a 3.7% rise in the customer base following sales promotions for attractive Plan tariffs. The higher number of flat tariff customers also increased outgoing minutes of use.

A decrease in business postpaid revenue of HRK 8 million, or 10.7%, was the result of the lower average price of usage. Despite a slightly higher customer base, up 1.1%, prices were lower due to fierce price competition in a saturated mobile market, and the continuation of a challenging macro-economic environment. These factors resulted in an ARPU decrease.

Non voice revenue

Non voice revenue decreased by HRK 17 million, or 0.6%, in 2014 in comparison to 2013. The decline was due to lower SMS revenue (HRK 56 million), fixed wholesale revenue (HRK 37 million), visitors revenue (HRK 32 million), ADSL (HRK 21 million), traditional data (HRK 17 million) and other fixed revenue (HRK 5 million).

The trend in wholesale fixed non voice revenue was mostly due to inter-company transactions related to Optima Telekom (HRK 55 million). Excluding this, wholesale revenue would be HRK 18 million higher, mostly due to an increase in infrastructure revenue due to the growth in the NBSA and BSA customer base, despite price decreases.

A drop in visitor revenue was a result of lower prices (following implementation of EU regulation from 1 July 2013), although usage increased. Lower ADSL revenue was the result of a lower broadband customer base, down 2.3%, and ARPA, down 0.7%, 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 Ethernet market.

This was partially offset by an increase in mobile data revenue and TV.

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

An increase in TV revenue was driven by a higher number of TV customers, up 0.7%, as well as higher TV average revenue per user, which rose by 6.6%. This resulted from the promotion of additional packages and Satellite TV customer acquisition, especially in rural areas. The promotion of the MAXobitelj offer also continued throughout the whole year, supporting TV services sales campaigns.

In non voice revenue, a decline of HRK 74 million, or 6.7%, was seen in business, while residential rose by HRK 57 million, or 3.3%.

A non voice revenue decrease of HRK 37 million, or 5.2%, in Q4 2014 in comparison to Q4 2013 was primarily driven by a decrease in fixed non voice by HRK 30 million, or 6.4%, and in mobile by HRK 7 million, or 2.9%. The all in fixed was mainly due to lower wholesale revenue (down HRK 23 million, or 28.4%) due to inter-company transactions related to Optima Telekom (HRK 25 million). Excluding this, wholesale revenue would be HRK 2 million higher, primarily due to an increase in infrastructure revenue from the growth in the NBSA and BSA customer base, despite price decreases. Fixed retail revenue was lower by HRK 7 million or 1.9%, primarily due to lower traditional data revenue driven by the migration to IP data and price competition on the Ethernet market and lower ADSL revenue, owing to the fall in the broadband customer base of 2.3%.

A mobile non voice revenue decrease was primarily driven by lower visitor revenue (down HRK 9 million, or 84.7%) as a result of falling prices, although usage increased. However, this was partially offset by higher retail revenue driven by postpaid (up HRK 5 million, or 3.1%) mostly from data revenue growth (up HRK 17 million), and partially offset by lower SMS revenue (down HRK 14 million).

Mobile data growth resulted from the substitution of traditional voice and SMS services with data, higher volumes of data traffic included in tariff bundles and an increasing share of customers with smartphones. Higher number of customers in Plan tariffs with multimedia and large data packages contributed to data revenue growth.

From the total fall in non voice revenue, a decrease of HRK 34 million, or 12.6%, was from the business segment and HRK 3 million, or 0.7%, from residential.

Other service revenue

Increase in other service revenue by HRK 74 million or 13.4%, in comparison to 2013 was driven mainly by higher ICT revenue. ICT revenue growth was mainly coming from specific ICT solutions for key accounts, Cloud and managed services and IT infrastructure and system solutions.

A decrease in other service revenue of HRK 25 million, or 11.9%, in comparison to Q4 2013, was driven by lower ICT revenue (down HRK 27 million, or 14.0%). Combis reported a fall of HRK 29 million, mainly due to seasonal factors (peaking in 2014 in Q3) from licences within professional services (mostly government contracts), while HT reported an increase of HRK 1 million, mainly due to growth in ICT standard products. Iskon saw an increase of HRK 1 million due to ICT services to Mostar.

Terminal equipment

Terminal equipment revenue increased by HRK 94 million, or 46.4%, in comparison with 2013. Of this, HRK 72 million, a rise of 50.5%, was seen in residential, while HRK 22 million, a 36.7% increase, was from business.

This increase was the result of the introduction of split contracts starting from Q4 2013 (where the entire handset revenue is recognized at the moment of the handset sale to the customer). Split contract instalments amounted to HRK 132 million and were HRK 116 million higher than in 2013. This was partially offset by lower prepaid handset revenue due to lower numbers of customers taking handsets. Furthermore, there was a different handset and tariff mix in comparison to last year.

Terminal equipment revenue increased by HRK 21 million, or 35.2%, in comparison to Q4 2013. Of the total increase, HRK 12 million, or 27.8%, came from residential, while HRK 9 million, or 54.1%, was from the business segment. This rise was mainly due to the introduction of split contracts in Q4 2013 (where the entire handset revenue is recognized at the moment of the handset sale to the customer). Split contract instalments amounted to HRK 39 million in Q4 2014, up by HRK 23 million over Q4 2013.

Miscellaneous

An increase in miscellaneous revenue of HRK 275 million, or 134.9%, in comparison to 2013, was mainly driven by consolidated revenue from Optima Telekom in the amount of HRK 221 million.

Excluding this, an increase of HRK 53 million was mostly the result of the new spectrum fee introduced from 1 July 2014, and passed on to mobile customers and higher revenue from the energy business, launched in Q4 2013. A decrease in national roaming revenue resulting from lower prices partially offset this rise.

An increase in miscellaneous revenue of HRK 136 million, or 231.4%, in comparison to Q4 2013, was mainly driven by the Optima Telekom third party revenue contribution in the amount of HRK 108 million.

Excluding this, the increase of HRK 28 million was in large part due to the new fee imposed by the government introduced from 1 July 2014, which was passed on to mobile customers and higher revenue from the energy business launched in Q4 2013. A decrease in national roaming revenue from lower prices partially offset this rise.

Other operating income

Other operating income decreased by HRK 13 million, or 9.4%, compared to 2013, mainly as a result of lower real estate sales, partially offset by higher income from penalties and fees related to court decision in the collection process.

Other operating income decreased by HRK 15 million, or 27.8%, compared to Q4 2013, mainly as a result of lower real estate sales (down HRK 22 million) and lower revenue from copper cable sales (HRK 5 million), while Optima Telekom contributed HRK 11 million.

3.2 Operating expenses

Total consolidated operating expenses increased by HRK 216 million, or 5.2%, to HRK 4,397 million in 2014.

This increase was particularly due to a fall in other expenses (HRK 113 million), material expenses (HRK 49 million), write down of assets (HRK 34 million), employee benefits expenses (HRK 14 million) and capitalized work performed by the Group (HRK 7 million).

Excluding redundancy costs, (2014: HRK 138 million vs. 2013: HRK 66 million), transformation consultancy costs treated as exceptional items (2014: HRK 14 million) and the Optima Telekom contribution of HRK 103 million, operating expenses increased by HRK 28 million, or 0.7%, to HRK 4,142 million in 2014.

Total consolidated operating expenses increased by HRK 114 million, or 11.5%, to HRK 1,105 million in Q4 2014 from HRK 992 million in Q4 2013. This increase was primarily driven by higher other expenses (HRK 63 million), material expenses (HRK 24 million), write down of assets (HRK 20 million) and lower capitalized work performed by the Group (HRK 35 million). This was partially offset by lower employee benefits expenses (HRK 28 million).

Excluding redundancy costs (Q4 2014: HRK 23 million), transformation consultancy costs treated as exceptional items (Q4 2014: HRK 14 million) and the Optima Telekom contribution of HRK 47 million, operating expenses increased by HRK 30 million, or 3.0% to HRK 1,021 million in Q4 2014.

3.2.1 Material expenses

Material expenses increased from HRK 1,898 million in 2013 to HRK 1,947 million in 2014 as a result of higher merchandise, material and energy expenses (HRK 157 million, or 15.5%) partially offset by lower services expenses (HRK 108 million, or 12.1%).

An increase in merchandise costs was mainly driven by higher mobile merchandise costs and ICT development, while fixed merchandise was lower compared to the previous year. The mobile merchandise cost increase was primarily driven by the residential segment and by the business segment, due to higher number of postpaid acquired and retained customers taking handsets as well as due to a higher share of high value handsets sold and due to the introduction of the split contract model. ICT merchandise increase was following revenue development. A decrease in the fixed segment, driven by residential slightly offset by an increase in business, was a result of lower customer acquisition and retention related merchandise costs due to a reduction in campaigns with gadget offers.

An increase in energy sales expenses related to the energy business, launched in Q4 2013, was offset by a decrease in energy costs, mainly as a result of savings made by shutting down of exchanges in PSTN migration, and by a decrease in material costs.

A decrease in services expenses mainly came from lower telecommunication costs and copyright fees.

International telecommunication cost declined (HRK 79 million) mainly due to lower international hubbing traffic and lower average roaming unit cost. The negative impact of lower average roaming unit costs was partially offset by higher usage. Overall, HRK 93 million came from the business segment and HRK 8 million from the residential segment, but these were partially offset by higher costs coming from the Optima Telekom consolidated segment, amounting to HRK 22 million.

Domestic telecommunication costs declined (HRK 36 million), mainly due to lower fixed (FTR) and mobile (MTR) unitary termination price. By segment, HRK 28 million came from the residential and HRK 28 million from the business segment, partially offset by higher costs coming from Optima Telekom consolidated segment in the amount of HRK 20 million.

Lower copyright fees (HRK 5 million), were caused by a higher share of capitalized content rights contracts. However, there was a higher number of TV customers and additional TV packages, especially sport and HBO packages. Overall, HRK 8 million came from the residential and HRK 2 million from the business segment, and this total was partially offset by higher costs from the Optima Telekom consolidated segment in the amount of HRK 5 million.

Excluding the Optima Telekom contribution of HRK 48 million, material expenses increased by HRK 1 million.

Material expenses increased from HRK 484 million in Q4 2013 to HRK 508 million in Q4 2014 as a result of higher merchandise, material and energy expenses and service expenses.

An increase in merchandise costs was mainly driven by higher mobile merchandise and fixed merchandise costs while ICT merchandise costs fell compared to Q4 2013.

An increase in mobile merchandise costs, mostly driven by the residential segment, was a result of a higher number of retained customers taking handsets and also due to a higher share of high value handsets sold, partially due to introduced split contract model. A fixed merchandise cost increase was driven by higher customer retention related merchandise costs resulting from increased retention efforts, especially in Christmas promotional campaign. ICT merchandise increase was following revenue development.

An energy sales costs increase was related to the fact that the energy business was launched in the middle of Q4 2013.

Services expenses increased, mainly due to higher copyright fees which were partially offset by lower telecommunication services costs.

Higher copyright fees (up HRK 25 million) were primarily due to higher content capitalization in Q4 2013.

Domestic telecommunication costs declined (down HRK 10 million), mainly due to lower fixed (FTR) and mobile (MTR) unitary termination prices combined with a decrease in traffic. Of the total fall, HRK 10 million came from the business segment and HRK 9 million from the residential segment, partially offset by higher costs coming from the Optima Telekom consolidated segment in amount of HRK 9 million.

International telecommunication cost declined (down HRK 7 million) mainly due to lower international hubbing traffic and lower average roaming unit costs. The impact of lower average roaming unit costs was partially offset by higher usage. Of the total fall, HRK 18 million came from the business segment, but that was partially offset by higher costs from the Optima Telekom consolidated segment in the amount of HRK 11 million.

Excluding the Optima Telekom contribution of HRK 21 million, material expenses increased by HRK 3 million, or 0.5%.

3.2.2 Employee benefits expenses

Total employee benefits expenses increased by HRK 14 million, or 1.3%, to HRK 1,128 million in 2014.

Excluding redundancy costs (2014: HRK 138 million vs. 2013: HRK 66 million) and the Optima Telekom contribution of HRK 29 million, employee benefits expenses decreased by HRK 86 million. This was mainly due to lower cost for gross wages because of lower number of FTEs, and lower rights from new Collective agreement valid from 1 July 2014, but partially offset by a higher contribution on salaries coming from the amended contribution law as of 1 April 2014.

The number of FTEs decreased from 5,621 in 2013 to 4,994 in 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. Besides that, the decrease in FTEs was the result of the Headcount Restructuring program and reorganization. This impact was partially offset by new employment coming from the company transformation initiative. Optima Telekom contributed 406 FTEs.

Total employee benefits expenses decreased by HRK 28 million, or 11.6%, to HRK 215 million in Q4 2014.

Excluding redundancy costs (Q4 2014: HRK 23 million) and the Optima Telekom contribution of HRK 13 million, employee benefits expenses decreased by HRK 64 million. This was mainly due to lower costs for gross wages because of lower number of FTEs, and lower rights from new Collective agreement valid from 1 July 2014, but partially offset by higher bonuses.

3.2.3 Other expenses

Other expenses increased by HRK 113 million or 9.4% to HRK 1,317 million in 2014.

The negative impact of higher consultancy costs, maintenance, licences, external employment and advertising was partially offset by lower other expenses and postal charges.

Consultancy cost increased mainly due to external consultancy engagement in transformation and reorganisation.

Increase in maintenance was mostly driven by higher number of fault repair activities due to bad weather conditions. Outsourcing of HT's technology unit for the construction and maintenance additionally resulted with increase of HRK 25 million. In addition, maintenance costs from Optima Telekom (HRK 10 million) also contributed to the cost increase.

An increase in licenses was mostly due to the higher governmental spectrum fee, partially offset by lower HAKOM fees for radio relay links and T Brand licenses.

An increase in temporary employment mainly came from an emphasis on direct sales channels as well as from support for remote fault repairs and the engagement of agency technicians in network operations.

Advertising costs increased as a result of intensive year-end promotions and campaigns to acquire and retain customers.

A decrease in other expenses was mainly driven by 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 and lower wholesale penalties.

A decrease in postal charges was mainly due to the shift to e-bills and lower negotiated unit prices with postal services provider.

Excluding transformation consultancy costs treated as exceptional items (2014: HRK 14 million) and Optima Telekom's contribution of HRK 23 million, other expenses increased by HRK 75 million.

Other expenses increased by HRK 63 million, or 20.2%, to HRK 378 million in Q4 2014.

The negative impact of higher licenses, maintenance, rental and leasing, advertising, external employment and consultancy was partially offset by lower other expenses.

The increase in licenses was largely driven by the new government fee introduced in July 2014. The impact of the outsourcing project primarily drove maintenance costs increase. In addition, maintenance costs from Optima Telekom also contributed to the increase in costs. Higher costs related to requests for Right of Way and new regulatory requirements drove an increase in rental costs. An increase in advertising costs was the result of intensive promotional year-end efforts to acquire and retain customers. An increase in temporary employment mainly came from the use of direct sales channels as well as from support on remote fault repairs and the engagement of agency technicians in the network operations. Consultancy cost increased mainly due to consultancy services related to the Group's structural reforms. A decrease in other expenses was mainly driven by the discounting of long-term receivables from the pre bankruptcy settlement with operators in Q4 2013 and lower wholesale penalties.

Excluding transformation consultancy costs treated as exceptional items (2014: HRK 14 million) and the Optima Telekom contribution of HRK 10 million, other expenses increased by HRK 39 million, or 12.4%.

3.3 Write down of assets

The assets write down increased by HRK 34 million, or 54.8%, to HRK 95 million in 2014. This increase was mainly driven by the value adjustment of receivables in the mobile residential segment, as a result of a higher intensity of court claims and as a result of adjusted receivables related to wholesale operators.

The assets write down increased by HRK 20 million, or 238.3%, to HRK 28 million in Q4 2014. This increase was mainly driven by the value adjustment of receivables in the mobile residential segment because of a higher intensity of court claims and because of adjusted receivables related to wholesale operators.

3.4 Depreciation and amortization

Depreciation and amortization were HRK 44 million, or 3.3%, higher than in 2013. The impact of Optima Telekom consolidation amounted to HRK 52 million.

Depreciation and amortization were 2.2% lower than in Q4 2013 (Q4 2014: HRK 399 million vs. Q4 2013: HRK 408 million) primarily due to lower investments and the lower value of impairment of assets.

3.5 T-HT Group profitability

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Revenue	1,788	1,766	*-1.2%*	7,042	6,908	*-1.9%*
EBITDA before exceptional items	850	737	*-13.3%*	3,065	2,786	*-9.1%*
Exceptional items	0	37	-	66	152	*128.7%*
EBITDA after exceptional items	850	700	*-17.7%*	2,998	2,634	*-12.1%*
EBIT (Operating profit)	443	302	*-31.9%*	1,632	1,223	*-25.0%*
Net profit	478	426	*-10.9%*	1,442	1,142	*-20.7%*
EBITDA margin before exceptional items	47.6%	41.7%	*-5.8 p.p.*	43.5%	40.3%	*-3.2 p.p.*
EBITDA margin after exceptional items	47.6%	39.6%	*-7.9 p.p.*	42.6%	38.1%	*-4.4 p.p.*
EBIT margin	24.8%	17.1%	*-7.7 p.p.*	23.2%	17.7%	*-5.5 p.p.*
Net profit margin	26.7%	24.1%	*-2.6 p.p.*	20.5%	16.5%	*-3.9 p.p.*

1) Exceptional items in 2014 refer to redundancy costs totalling HRK 138 million and transformation consultancy costs totalling HR 14 million. Exceptional items in 2013 refer to redundancy costs totalling HRK 66 million.

The decline in EBITDA before exceptional items slowed compared to 2013, falling by HRK 278 million, or 9.1%, to HRK 2,786 million in 2014. Both lower revenue (down HRK 135 million, or 1.9%) and other operating income (down HRK 13 million, or 9.4%), and higher operating expenses (up HRK 131 million, or 3.2%) negatively impacted EBITDA.

The Optima Telekom contribution to Group EBITDA was HRK 57 million and consisted of HRK 123 million of Optima Telekom third party contributions and HRK 66 million of inter-company transactions.
Consolidated net profit after non controlling interests decreased by 20.7% to HRK 1,142 million in 2014 from HRK 1,442 million in 2013. This decrease was primarily a result of the fall in EBITDA, further impacted by higher exceptional items (transformation related redundancy and consultancy costs amounting to HRK 86 million) and depreciation and amortization (HRK 44 million), as well as lower net financial income (HRK 36 million), lower taxation (HRK 140 million) and the contribution of non-controlling interests (HRK 4 million).

A negative contribution of net financial income by HRK 36 million was result of lower interest income from cash at bank and higher financial expenses, primarily driven by the impact of content capitalization and lower income from investment in joint ventures. Optima negatively contributed HRK 13 million.

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

The amount of profit reinvested in HT Inc. was deducted from the tax base and this positively impacted 2014 net profit by HRK 188 million.

EBITDA before exceptional items decreased by HRK 113 million, or 13.3%, to HRK 737 million in Q4 2014. The fall in EBITDA was largely driven by higher operating expenses (up HRK 77 million, or 7.8%), lower revenue (down HRK 21 million, or 1.2%) and lower other operating income (down HRK 15 million, or 27.8%).

The Optima Telekom contribution to Group EBITDA was HRK 36 million and consisted of HRK 68 million of Optima Telekom third party contributions and HRK 32 million of inter-company transactions.

Consolidated net profit after non controlling interests decreased by HRK 148 million, or 30.9%, to HRK 330 million in Q4 2014 from HRK 478 million in Q4 2013.

This decrease was primarily a result of the fall in EBITDA before exceptional items (down HRK 113 million) and also impacted by higher exceptional items (up HRK 37 million) and higher taxation (up HRK 19 million). However, it was partially offset by higher net financial income (up HRK 10 million), lower depreciation and amortization (down HRK 9 million) and the contribution of non-controlling interests (up HRK 2 million).

Positive contribution of net financial income by HRK 10 million was a result of lower exchange rate losses (HRK 7 million) and lower interest expenses (HRK 5 million), higher financial income (HRK 4 million) due to higher exchange rate gain and higher income from investment in joint ventures (HRK 2 million). Optima negatively contributed with HRK 8 million.

Optima Telekom contributed a loss of HRK 5 million in Q4 2014 to Group net profit.

3.6 Balance sheet

The total value of assets increased by 7.9% in comparison to 2013, mainly due to the consolidation of Optima Telekom.

Excluding the impact of Optima's consolidation, assets would be 2.6% higher than the previous year.

Total issued capital and reserves increased from HRK 10,700 million at 31 December 2013 to HRK 11,235 million at 31 December 2014 as a result of net profit for 2014 in the amount of HRK 1,142 million and the dividend payment in May 2014 in the amount of HRK 736 million. An increase in ordinary share capital by HRK 694 million was due to partial reinvestment of profit for 2013.

Total non-current liabilities increased by HRK 435 million, or 157.2%, mainly due to the consolidation of Optima Telekom coming from reprogrammed liabilities in the prebankruptcy settlement. Excluding this, there would be a decrease in non-current liabilities by 22.6% mostly due to lower provisions.

Total current liabilities increased by HRK 45 million to HRK 1,889 million at 31 December 2014, mainly due redundancy provision.

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 2013, net cash flow from operating activities increased by 7.4%. Despite a decrease in profit before tax (EBT), operating working capital management improved compared to 2013.

Net cash flow from investing activities increased by 17.5%, mainly as a result of a significantly higher maturity of financial assets investments in 2014.

Net cash flow from financing activities increased by HRK 840 million, or 47.6%, mainly due to the lower dividend payment in 2014 in the amount of HRK 736 million. (The lower dividend was due to partial reinvestment of earned profit from 2013.)

3.8 Capital expenditure

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
T-HT Group	**568**	**346**	**-39.2%**	**1,426**	**1,073**	**-24.7%**
Capex / Revenue ratio	31.8%	19.6%	-12.2p.p.	20.2%	15.5%	-4.7 p.p.

Capital expenditure of HRK 1,073 million in 2014 was lower by HRK 353 million, or 24.7%, in 2013, mainly due to Spectrum investments in 2013 and the absence of one-off real estate investments in 2014.

In 2014, T-HT invested with a focus on the further development of the network infrastructure, increasing broadband access capacity and availability, enabling the IP transformation of the network and the technological foundations of the Company to secure business continuity and long-term sustainability of T-HT's market position.

T-HT is continuing its strategic mobile broadband deployment project, enabling outperformance in comparison to the competition in mobile broadband with respect to coverage, capacity, scalability, performance of network and continuation of single RAN project. Modernization of the radio access network project is now completed, with 99.7% of total mobile access locations modernized. Temporary diesel power generators have been replaced by permanent power lines on six mobile sites, which represent significant operational expenditure savings. Coverage and access capacity of mobile broadband have been increased by the completion of 41 new 2G, 128 new 3G and 46 new 4G services. At the end of December 2014, T-HT's 4G network reached 45% 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. The strategic PSTN migration project will enable fixed voice service continuity with the efficient transformation from the obsolete TDM technology to IP. By the end of 2014, in total 882,609 customers had migrated and 46 local exchanges were switched off.

MPLS modernization project continues and is enabling new IP Broadband Services provisioning and higher network quality / performance. In the HT Metro Ethernet Network, 18 new 10Gbps IP routers were installed and in total 17 have been migrated.

IT activities and achievements have been focused on the technological evolution to the 'digital company' business model and 'on-line' business transformation, the convergence of the business portfolio and the consolidation of information systems and business support, as well as the integration of the infrastructure of HT.

Capital expenditure of HRK 346 million in Q4 2014 was down HRK 223 million, or 39.2%, from Q4 2013.

This was primarily a result of lower investment in Q4 2014 within Network - other area (down HRK 98 million), and Network regarding CPE (down HRK 56 million), content provider costs (down HRK 40 million) and real estate (down HRK 26 million).

Lower investment within the Network was mainly related to the digital dividend (down HRK 106 million) and spectrum licence (down HRK 43 million).

The decrease in Real estate investment was mainly related to the shift of Legalization ECI (Electro Communication Infrastructure) to Network (HRK 13 million), Data Center Selska (HRK 8 million) and Building Acquisition (HRK 4 million).

4. Overview of segment profitability

After 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 in the T-HT's full ownership Iskon, Combis, KDS and E-Tours are part of the above mentioned segments, following the same structure as Mother Company.

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

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

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

4.1 Residential Segment

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Voice revenue	489	451	-7.8%	2,070	1,823	-11.9%
Non voice revenue	441	437	-0.7%	1,719	1,776	3.3%
Other service revenue	0	1	60.3%	2	6	195.0%
Terminal equipment	43	55	27.8%	142	214	50.5%
Miscellaneous	19	50	160.6%	59	122	107.8%
Revenue 1)	**992**	**994**	**0.2%**	**3,992**	**3,942**	**-1.3%**
Operating expenses 2)	**263**	**332**	**26.3%**	**1,192**	**1,254**	**5.3%**
Contribution to EBITDA before EI	**729**	**662**	**-9.3%**	**2,800**	**2,687**	**-4.0%**

1) Due to new classification of revenue 2013 slightly changed in structure.
2) Operating expenses per segment for 2013 changed in comparison to originally reported in 2013 due to organisatinal changes in 2014.

4.2 Business Segment

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Voice revenue	262	184	-29.9%	1,191	876	-26.4%
Non voice revenue	268	235	-12.6%	1,102	1,028	-6.7%
Other service revenue	209	184	-12.0%	551	622	12.8%
Terminal equipment	17	26	54.1%	61	83	36.7%
Miscellaneous	40	37	-7.3%	145	135	-6.8%
Revenue 1)	**795**	**664**	**-16.5%**	**3,051**	**2,745**	**-10.0%**

Operating expenses [2]	401	340	-15.0%	1,373	1,352	-1.6%
Contribution to EBITDA before EI	395	324	-17.9%	1,677	1,393	-16.9%

1) Due to new classification of revenue 2013 slightly changed in structure.
2) 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	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Other operating income	54	28	-48.5%	137	113	-17.6%
Operating expenses[1]	328	345	5.1%	1,550	1,530	-1.3%
Contribution to EBITDA before EI	-274	-317	-15.8%	-1,413	-1,417	-0.3%

1) 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	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Revenue	0	108	-		221	-
Other operating income	0	11	-		11	-
Operating expenses	0	51	-		110	-
Contribution to EBITDA before EI	0	68	-	0	123	-

5. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2014 made public, there were no material changes to the Group's risk profile in the period under review.

6. Group 2015 outlook

Revenue

Last year brought no recovery in the national economy; the recession persisted with GDP forecasts for 2014 at -0.8% and for 2015 at around zero. Unemployment has remained at high levels, with many companies undertaking restructuring measures, while both public debt and the budget deficit have increased.

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, and alongside other challenges including the imposition of a new spectrum fee by the government in 2014, a stronger contribution from growth areas within the Group, backed by an intensive programme of investment, with Optima Telekom fully consolidated for the entire year, the Group expects revenue to remain stable in 2015.

EBITDA before exceptional items

The economic environment and revenue trends outlined above, along with changes in the revenue structure, will impact EBITDA accordingly. However, the Group's continued focus on transformation initiatives will help maintain a high level of profitability, and consequently the Group expects an EBITDA margin in 2015 of around 40%.

Investments

T-HT Group has for some time identified the need for a significant strategic shift with respect to investment, aimed at both enhancing the Group's market position through the provision of high quality customer services whilst supporting the overall health and competitiveness of the Croatian economy.

An improvement at of the end of 2014 in the regulatory environment with respect to investment in telecoms infrastructure in Croatia has finally enabled the Group to dedicate significant funds for investment in the network.

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.

In particular, the Group is planning a significant increase in infrastructure investment, with particular emphasis on fixed and mobile broadband. This will enable the Group to achieve its year-end 2015 targets of household coverage by Next Generation Access - NGA - (fixed broadband >30Mbps) of around 50% and LTE (4G) indoor coverage of around 60% of the population.

Total Group's investments are planned at HRK 1,350 million, which represents a one-off increase of around 26% compared to 2014.

7. T-HT Group Financial statements

7.1 Consolidated Income Statement

in HRK million (IFRS)	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Voice revenue	751	635	-15.5%	3,261	2,700	-17.2%
Non voice revenue	709	672	-5.2%	2,821	2,804	-0.6%
Other service revenue	209	184	-11.9%	553	628	13.4%
Terminal equipment	60	80	35.2%	203	298	46.4%
Miscellaneous	59	195	231.0%	204	478	134.9%
Revenue [1)]	**1,788**	**1,766**	**-1.2%**	**7,042**	**6,908**	**-1.9%**
Other operating income	54	39	-27.8%	137	124	-9.4%
Total operating revenue	1,842	1,806	-2.0%	**7,179**	**7,032**	**-2.1%**
Operating expenses	**992**	**1,105**	**11.5%**	**4,181**	**4,397**	**5.2%**
Material expenses	484	508	5.0%	1,898	1,947	2.6%
Merchandise, material and energy expenses	305	316	3.8%	1,009	1,165	15.5%
Services expenses	179	192	6.9%	890	782	-12.1%
Employee benefits expenses	243	215	-11.6%	1,114	1,128	1.3%
Other expenses	314	378	20.2%	1,205	1,317	9.4%
Work undertaken by the Group and capitalised	-58	-23	60.4%	-97	-90	7.4%
Write down of assets	8	28	238.3%	61	95	54.8%
EBITDA	**850**	**700**	**-17.7%**	**2,998**	**2,634**	**-12.1%**
Depreciation and amortization	408	399	-2.2%	1,366	1,411	3.3%
EBIT	**443**	**302**	**-31.9%**	**1,632**	**1,223**	**-25.0%**
Financial income	10	12	29.1%	48	36	-25.1%
Income/loss from investment in joint ventures	0	2	689.6%	21	14	-33.2%
Financial expenses	29	23	-18.8%	71	88	23.6%
Profit before taxes	**424**	**293**	**-30.9%**	**1,629**	**1,185**	**-27.2%**
Taxation	-54	-131	-142.9%	188	47	-74.8%
Net profit	**478**	**424**	**-11.3%**	**1,442**	**1,138**	**-21.1%**
Non controlling interest	0	-2	-	0	-4	-
Net profit after non controlling interest	**478**	**426**	**-10.9%**	**1,442**	**1,142**	**-20.7%**
Exceptional items [2)]	0	37	-	66	152	128.7%
EBITDA before exceptional items	**850**	**737**	**-13.3%**	**3,065**	**2,786**	**-9.1%**

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

2) Exceptional items in 2014 refer to redundancy costs totalling HRK 138 million and transformation consultancy costs totalling HR 14 million. Exceptional items in 2013 refer to redundancy costs totalling HRK 66 million.

7.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2013	At 31 Dec 2014	*Change*
Intangible assets	1,358	1,716	26.4%
Property, plant and equipment	5,570	5,577	0.1%
Non-current financial assets	616	735	19.4%
Receivables	126	121	-4.2%
Deferred tax asset	60	51	-14.8%
Total non-current assets	**7,729**	**8,200**	**6.1%**
Inventories	115	115	0.2%
Receivables	1,457	1,525	4.7%
Current financial assets	1,331	1,539	15.6%
Cash and cash equivalents	2,039	2,192	7.5%
Prepayments and accrued income	149	264	76.9%
Total current assets	**5,091**	**5,635**	**10.7%**
TOTAL ASSETS	**12,820**	**13,835**	**7.9%**
Subscribed share capital	8,189	8,883	8.5%
Reserves	409	409	0.1%
Revaluation reserves	-1	2	273.8%
Retained earnings	662	673	1.8%
Net profit for the period	1,442	1,142	-20.7%
Non controlling interest	0	125	-
Total issued capital and reserves	**10,700**	**11,235**	**5.0%**
Provisions	132	71	-46.3%
Non-current liabilities	142	590	316.4%
Deferred tax liability	2	50	
Total non-current liabilities	**276**	**711**	**157.2%**
Current liabilities	1,724	1,742	1.1%
Deferred income	120	111	-7.6%
Provisions for redundancy	0	35	-
Total current liabilities	**1,844**	**1,889**	**2.4%**
Total liabilities	2,120	2,600	22.6%
TOTAL EQUITY AND LIABILITIES	**12,820**	**13,835**	**7.9%**

Note: 2013 Balance sheet restated for the effect of financial collaterals, previously presented as Current financial assets, now changed to Non-current financial assets

7.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Jan-Dec 2013	Jan-Dec 2014	*change*
Profit before tax	1,629	1,185	-27.2%
Depreciation and amortization	1,366	1,411	3.3%
Increase / (decrease) of current liabilities	-73	159	318.6%
(Increase) / decrease of current receivables	-56	-98	-74.7%
(Increase) / decrease of inventories	40	1	-96.8%
Other cash flow increases/ decreases	-776	-370	52.4%
Net cash inflow/outflow from operating activities	**2,131**	**2,288**	**7.4%**
Proceeds from sale of non-current assets	70	13	-81.9%
Proceeds from sale of non-current financial assets	2	3	52.5%
Interest received	26	16	-39.0%
Dividend received	20	17	-19.2%
Other cash inflows from investing activities	702	1,585	125.7%
Total increase of cash flow from investing activities	**821**	**1,633**	**99.0%**
Purchase of non-current assets	-1,132	-939	17.0%
Purchase of non-current financial assets	-75	-243	-223.3%
Other cash outflows from investing activities	-1,090	-1,670	-53.1%
Total decrease of cash flow from investing activities	**-2,297**	**-2,852**	**-24.1%**
Net cash inflow/outflow from investing activities	**-1,477**	**-1,218**	**17.5%**
Total increase of cash flow from financing activities	**0**	**0**	**-**
Repayment of loans and bonds	-2	-16	-884.7%
Dividends paid	-1,679	-736	56.2%
Repayment of finance lease	-5	-7	-28.9%
Other cash outflows from financing activities	-78	-164	-111.2%
Total decrease in cash flow from financing activities	**-1,763**	**-923**	**47.6%**
Net cash inflow/outflow from financing activities	**-1,763**	**-923**	**47.6%**
Exchange gains/losses on cash and cash equivalents	**2**	**6**	**190.1%**
Cash and cash equivalents at the beginning of period	3,146	2,039	-35.2%
Net cash (outflow) / inflow	-1,107	152	113.8%
Cash and cash equivalents at the end of period	**2,039**	**2,192**	**7.5%**

Note: 2013 Cash flow restated, changes were made in order to separately present cash outflows for content contract and regulatory licences purchases within cash flows from financial activities and due to changes in cash flow methodology with regards to purchases of non-current assets

7.4 Consolidated EBITDA reconciliation

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Segment Result (Contribution to EBITDA)						
Residential Segment	729	662	-9.3%	2,800	2,687	-4.0%
Business Segment	395	324	-17.9%	1,677	1,393	-16.9%
Network and Support Functions	-274	-317	-15.8%	-1,413	-1,417	-0.3%
Segment Optima Telekom Consolidated	0	68	-	0	123	-
Total Contribution to EBITDA before SI of the Segments	**850**	**737**	**-13.3%**	**3,065**	**2,786**	**-9.1%**
Special influences	0	37	-	66	152	128.7%
Total EBITDA	**850**	**700**	**-17.7%**	**2,998**	**2,634**	**-12.1%**

7.5 Group's revenue breakdown under former reporting structure

in HRK million	Q4 2013	Q4 2014	*change*	Jan-Dec 2013	Jan-Dec 2014	*change*
Mobile	687	699	1.8%	2,839	2,805	-1.2%
Fixed Telephony	336	288	-14.3%	1,431	1,213	-15.2%
Wholesale	140	76	-45.7%	567	393	-30.7%
IP Revenue	395	392	-0.9%	1,565	1,577	0.8%
Data	24	20	-14.6%	101	83	-17.2%
ICT	195	167	-14.0%	498	564	13.3%
Miscellaneous	11	117	928.4%	43	255	494.8%
Energy	0	7	-	0	12	-
Other non telco services	0	0	-	0	5	-
Revenue	**1,788**	**1,766**	**-1.2%**	**7,042**	**6,908**	**-1.9%**

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 year 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, Ph.D., Member of the Management Board and Chief Financial Officer

Ms. Nataša Rapaić, 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, 12 February 2015

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