



Zagreb – 30 April 2015

## Hrvatski Telekom Results for the three months ended 31 March 2015

### Hrvatski Telekom: First quarter marked by stable financial results and increased investment

- *Increased revenue in the first three months of 2015*
- *Investment increased by 34.5 %, focus on infrastructure development and fast Internet access*
- *Continued Company transformation aimed at improvement of quality of service and customer experience*

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its results for the three months ended 31 March 2015.

In the first three months, Hrvatski Telekom saw revenue increase by 0.7 % compared to the same period of the previous year; total revenue amounted to HRK 1.619 billion. Hrvatski Telekom has thereby reinforced its position of Croatia's leading provider of telecommunications services.

In addition to the positive trend in revenue, the stabilization of earnings before interest, taxes, depreciation, and amortization (EBITDA) has also continued. Despite increased costs due to transformation activities and the adverse economic environment, EBITDA before exceptional items amounted to HRK 622 million, for an EBITDA margin of 38.4 %. EBITDA declined by 1.2 % year-on-year. Net profit in the first quarter totalled HRK 151 million.

### Focus on customers and investments

The first quarter of the current year was marked by the launch of a heavy investment cycle. Investments planned for the whole of 2015 exceed HRK 1.3 billion, which is an increase of more than 25 % as compared to 2014.

Already in the first three months of 2015, investments were increased by 34.5 % as compared to the same period of the previous year; the primary focus has been on the further development of mobile and fixed infrastructure, increased broadband access availability and capacity and the completion of the IP transformation project, where 83 % of customers have now been migrated.

Investment in additional radiofrequency spectrum enabled Hrvatski Telekom to be the sole operator in Croatia to double its internet access bitrates in the 4G network, from the present 75 Mbit/s to 150 Mbit/s.

Until the end of the year, the plan is to achieve 4G mobile network coverage in excess of 60 % of population, at speeds of up to 150 Mbit/s. In the fixed network, 50 % of households will have broadband access at bitrates of a minimum of 30 Mbp/s.

The first quarter also saw a continuation of the Company transformation started in 2014. A set of new activities was launched, aimed at improving organizational efficiency - a prerequisite for an enhanced quality of service and customer experience, which is the focus of the Company's operations in 2015.

The beginning of the year at Hrvatski Telekom was marked by the launch of the Cloud VPN service on the new European network of Deutsche Telekom. The new service, available in Croatia, Hungary and Slovakia, was developed by experts from Hrvatski Telekom.

Commenting on the results of the first quarter, **Davor Tomašković, President of the Management Board of Hrvatski Telekom, said:**

“At Hrvatski Telekom, the beginning of the year was marked by stable financial results, the continuation of Company transformation initiatives and the start of our investment cycle. We increased investments by 34.5 % and set infrastructure development and fast internet as our primary focus. We are reinforcing our position as the technology leader, thus forming the basis for offering the best customer experience and the best quality and the fastest services on the Croatian market.”

## Contact details

### Hrvatski Telekom Investor Relations

Marina Bengez Sedmak  
Elvis Knežević + 385 1 4911 114  
Email [ir@t.ht.hr](mailto:ir@t.ht.hr)

### Instinctif Partners

Kay Larsen / Adrian Duffield +44 207 457 2020

A conference call for analysts and investors will be held at 09:00 UK time / 10:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In +44 (0)20 7192 8000  
UK Free Call Dial In 0800 376 7922  
Conference ID 34165721

A replay of the call will be available until Wednesday, 6 May 2015 using the following details:

International Dial In +44 (0)1452 550 000  
UK Free Call Dial In (from landlines only) 0800 953 1533  
Conference ID 34165721

A presentation covering results for the first three months of 2015 can be downloaded from the HT web site ([www.t.ht.hr/eng/investors/](http://www.t.ht.hr/eng/investors/)).

# 1. Review

## 1.1 Introduction

### **Good results despite tough macroeconomic situation and continuous competitive pressure**

HT Group keeps leading position in the Croatian telecommunications market across all areas of operation in Q1 2015 in spite of competitive pressure, falling consumption and continued tough economic situation in the country - and in parallel improving on trends in revenue and EBITDA vs Q1 2014.

## 1.2 Market overview

### **Fixed-line market**

Fixed telephony remains highly competitive in Croatia, with 13 operators active in the market<sup>3</sup>.

Fixed to mobile substitution is key market driver in declining fixed-line market. The number of fixed-line minutes of use (MOU) in 2014 decreased yoy by 15.8%<sup>1</sup>.

According to the Agency's quarterly 2014 reports<sup>4</sup>, decreasing trend of fixed voice usage is accelerating: from 14.4% yoy decrease in Q1/2014 to 19.1% yoy decrease in Q4/2014.

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**

Mobile SIM market keeps contracting, reaching estimated penetration rate at 112.1% at the end of March 2015 vs. 114.5% penetration rate reported for the end of March 2014. All the operators make efforts to increase number of postpaid customers by different tariff bundles with attractive smartphone offers. HT keeps stable share of total mobile customers at estimated 46.7% at the end of March 2015.

Mobile usage pattern has been changing as a result of more smartphones and tablets usage increase. Mobile customers use mobile data access more than ever thanks to increasing "Over the Top" services usage. As a result, total Croatian mobile market minutes of use (MOU) grew at very low rate (2.1% yoy) in 2014 compared with 2013 (21.1% yoy). After yearly growth of SMSs sent in 2013 (7.5%), number of SMSs sent in 2014 decreased by 8.3%<sup>2</sup>.

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<sup>3</sup> Source: Croatian Post and Electronic Communications Agency

<sup>1</sup> Source: Croatian Post and Electronic Communications Agency

<sup>2</sup> Source: Croatian Post and Electronic Communications Agency

New mobile fee, that has been introduced on May 23rd 2014 by the decision of the Croatian government to increase radiofrequency spectrum fee by three times, is still in force.

## **Internet**

The Croatian fixed broadband market grew yoy by 3.1% in Q4 2014 reaching 952,182 fixed broadband connections. DSL is still the dominant broadband technology. T-HT is the largest fixed broadband operator in Croatia. At the end of Q1 2015, T-HT Group had 607,051 broadband access lines.

The Croatian pay TV market grew yoy by 5.6% in Q4 2014 reaching 743,141 customers<sup>3</sup>. T-HT is the pay TV market leader thanks to its IPTV service, MAXtv.

## **Data**

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

## **Wholesale**

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in Q1 2015 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 81,611 at the end of Q1 2015 (increase of 50.4% compared to 2014). Due to high churn and migration to broadband services number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing, which resulted with 164,548 ULL access and 111,662 WLRs at the end of the period.

In January 2015, wholesale prices were amended for the following regulated services: fixed call origination, fixed and mobile call termination.

## **ICT**

Preliminary IDC Adriatics analysis indicates that Croatian ICT market grew around 2.7% in 2014<sup>3</sup>. HT Group improved its market position in ICT market, growing faster than the market.

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<sup>3</sup> Source: IDC Adriatics, April 2015

### 1.3 Economic background

#### **GDP down by 0.4% in 2014; stagnation expected in 2015**

Croatia has spent six years in recession, but the pace of contraction in 2014 was slower (-0.4%) than it was in the previous year (-0.9%). Economic stagnation is expected in 2015 (GDP yoy change around 0%).

The unemployment rate in February 2015 remained at 20.3%, which compared to the same month in 2014 represents a decrease by 0.4 percentage points<sup>4</sup>. Despite the annual decline, the unemployment rate, persisting at high levels, is a reflection of the long-term negative developments in the labour market.

Private consumption is expected to stagnate in 2015 as the negative impact of the weak labour market and uncertainties related to the final settlement of Swiss-franc indexed loans is broadly offset by the positive impact of the income tax reform and of lower oil prices. Disposable income reported for January 2015 amounts at average HRK 5,656 which is 2.8% higher in real terms<sup>5</sup>.

Inflation in Croatia, measured by Consumer Prices Index (CPI) recorded another annual decline (-0.4%) in February 2015. We expect deflation in most of the months during 2015.

### 1.4 Regulatory environment

#### **Deregulation of MTRs/FTRs outside the EU/EEA**

On 30 March 2015, HAKOM released its decisions on regulated MTR/FTR. Regulated MTR/FTR (for calls originated from numbers which belong to any national or EU/EEA operator) shall be defined based on the bottom-up pure LRIC cost model developed by HAKOM. MTR/FTR in case of calls originated from numbers belonging to international operators outside EU/EEA and in the case of calls without a number and FTR at a national level are excluded from further regulation.

Notwithstanding this decision, mobile and fixed operators are already obliged to implement pure LRIC MTR/FTR retrospectively as of 1 January 2015 (MTR= 6.30 lp/min (0.82 €/min), FTR (local and regional level) = (0.6 lp/min (peak 0.078 €/min) and 0.3 lp/min (off-peak 0.0389 €/min)).

#### **Regulation of fixed origination**

On 30 March 2015 HAKOM released its decision on the regulated Fixed Origination Rate (FOR). Regulation of FOR is applicable for interconnection on the local and regional level, while interconnection on the national level is excluded from regulation. Regulated FOR is defined based on

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<sup>4</sup> Sources: Latest macro forecast for Croatia by EU Commission, Feb. 2015, Raiffeisen Research weekly reports, 2015

<sup>5</sup> Source: Central Bureau of Statistics

the bottom-up LRAIC+ cost model developed by HAKOM (0.836 lp/min (peak 0.11 €/min) and 0.418 lp/min (off-peak 0.055 €/min)) and is applicable as of 1 May 2015.

## 1.5 Changes in reporting

In 2014 Croatian Competition Agency conditionally allowed the concentration of HT with Optima Telekom based on the proposal of the 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. Respectively, only financial statements are consolidated while due to limited access to Optima Telekom's information, non financial KPIs are not consolidated in the Group results.

## 1.6 Summary of key financial indicators

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
Revenue	1,607	1,619	0.7%
EBITDA before exceptional items	630	622	-1.2%
Exceptional items	54	73	34.3%
EBITDA after exceptional items	575	549	-4.6%
EBIT (Operating profit)	250	191	-23.7%
Net profit after non controlling interests	199	151	-24.0%
EBITDA margin before exceptional items	39.2%	38.4%	-0.7 p.p.
EBITDA margin after exceptional items	35.8%	33.9%	-1.9 p.p.
EBIT margin	15.6%	11.8%	-3.8 p.p.
Net profit margin	12.4%	9.3%	-3.0 p.p.
<b>Balance Sheet</b>	<b>At 31 Dec 2014</b>	<b>At 31 Mar 2015</b>	<b>% of change A15/A14</b>
Total non current assets	8,200	8,085	-1.4%
Total current assets	5,635	5,720	1.5%
<b>TOTAL ASSETS</b>	<b>13,835</b>	<b>13,806</b>	<b>-0.2%</b>
Total issued capital and reserves	11,235	11,387	1.3%
Total non current liabilities	711	646	-9.2%
Total current liabilities	1,889	1,774	-6.1%

<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,835</b>	<b>13,806</b>	<b>-0.2%</b>
<b>Cash flow</b>	<b>Q1 2014</b>	<b>Q1 2015</b>	<b>% of change A15/A14</b>
Net cash flow from operating activities	489	420	-14.2%
Net cash flow from investing activities	628	553	-11.8%
Net cash flow from financing activities	-47	-62	-30.5%
<b>Cash and cash equivalents at the end of period</b>	<b>3,110</b>	<b>3,111</b>	<b>0.0%</b>
CAPEX	188	253	34.5%
CAPEX / Revenue ratio	11.7%	15.6%	3.9 p.p.
	<b>At 31 Mar 2014</b>	<b>At 31 Mar 2015</b>	<b>% of change A15/A14</b>
ROE	1.8%	1.3%	-0.5 p.p.
ROCE	2.2%	1.6%	-0.7 p.p.
Number of employees (FTEs)	5,493	4,985	-9.2%

#### RESIDENTIAL SEGMENT

<b>in HRK million</b>	<b>Q1 2014</b>	<b>Q1 2015</b>	<b>% of change A15/A14</b>
Revenue	951	921	-3.1%
Contribution to EBITDA before exceptional items	657	640	-2.5%

#### BUSINESS SEGMENT

<b>in HRK million</b>	<b>Q1 2014</b>	<b>Q1 2015</b>	<b>% of change A15/A14</b>
Revenue	656	593	-9.7%
Contribution to EBITDA before exceptional items	319	296	-7.0%

#### NETWORK & SUPPORT FUNCTIONS

<b>in HRK million</b>	<b>Q1 2014</b>	<b>Q1 2015</b>	<b>% of change A15/A14</b>
Contribution to EBITDA before exceptional items	-346	-367	-6.2%

#### SEGMENT OPTIMA CONSOLIDATED

<b>in HRK million</b>	<b>Q1 2014</b>	<b>Q1 2015</b>	<b>% of change A15/A14</b>
Revenue	0	105	-
Contribution to EBITDA before exceptional items	0	52	-

## 1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Three months to 31 Mar 2014	7.65	7.66	5.58	5.58
Three months to 31 Mar 2015	7.68	7.64	6.82	7.05

## 2. Business Review

Key operational data	Q1 2014	Q1 2015	% of change A15/A14
<b>Mobile customers in 000</b>			
<b>Number of customers</b>	<b>2,272</b>	<b>2,214</b>	<b>-2.5%</b>
- Residential	1,801	1,737	-3.6%
- Business	471	478	1.4%
<b>Number of postpaid customers</b>	<b>1,090</b>	<b>1,098</b>	<b>0.7%</b>
<b>Number of prepaid customers</b>	<b>1,182</b>	<b>1,116</b>	<b>-5.6%</b>
<b>Minutes of use (MOU) per average customer</b>	<b>179</b>	<b>187</b>	<b>4.5%</b>
- Residential	164	172	5.0%
- Business	239	244	1.9%
<b>Blended ARPU (monthly average for the period in HRK)</b>	<b>77</b>	<b>73</b>	<b>-5.6%</b>
- Residential	67	63	-5.4%
- Business	116	108	-7.6%
<b>Blended non-voice ARPU (monthly average for the period in HRK)</b>	<b>33</b>	<b>34</b>	<b>2.1%</b>
<b>SAC per gross add in HRK</b>	<b>138</b>	<b>104</b>	<b>-24.2%</b>
<b>Churn rate (%)</b>	<b>2.9</b>	<b>2.6</b>	<b>-0.2 p.p.</b>
<b>Penetration (%) <sup>1)</sup></b>	<b>115</b>	<b>112</b>	<b>-2.4 p.p.</b>
<b>Market share of customers (%) <sup>1)</sup></b>	<b>47</b>	<b>47</b>	<b>0.1 p.p.</b>
<b>Data customers</b>	<b>1,316</b>	<b>1,404</b>	<b>6.7%</b>



<b>Smartphone customers (%)</b> <sup>2)</sup>	<b>34</b>	<b>44</b>	<b>9.8 p.p.</b>
<b>Smartphones sold (%)</b> <sup>3)</sup>	<b>71</b>	<b>74</b>	<b>3.0 p.p.</b>

- 1) Source: published VIPnet's quarterly report for Q1 2015 and Tele2's quarterly report for Q1 2015.  
2) Number of customers using a smartphone handsets in total number of mobile customers  
3) Number of smartphones sold in total number of handsets sold (postpaid only)

<b>Key operational data</b>	<b>Q1 2014</b>	<b>Q1 2015</b>	<b>% of change A15/A14</b>
<b>Fixed mainlines in 000</b>			
<b>Fixed mainlines - retail</b> <sup>1)</sup>	<b>1,108</b>	<b>1,027</b>	<b>-7.3%</b>
- Residential	955	897	-6.1%
- Business	153	129	-15.3%
<b>Fixed mainlines - wholesale (WLR - wholesale line rental)</b>	<b>120</b>	<b>112</b>	<b>-7.0%</b>
- Residential	104	100	-3.7%
- Business	17	12	-27.8%
<b>Total traffic (mill. of minutes)</b> <sup>2)</sup>	<b>427</b>	<b>353</b>	<b>-17.3%</b>
- Residential	346	298	-14.0%
- Business	81	56	-31.0%
<b>ARPA voice per access (monthly average for the period in HRK)</b> <sup>3)</sup>	<b>95</b>	<b>89</b>	<b>-6.2%</b>
- Residential	84	80	-4.3%
- Business	165	151	-8.7%
<b>IP mainlines/customers in 000</b>			
<b>Broadband access lines - retail</b> <sup>4)</sup>	<b>624</b>	<b>607</b>	<b>-2.7%</b>
- Residential	518	507	-2.2%
- Business	106	100	-5.4%
<b>Broadband access lines - wholesale</b> <sup>5)</sup>	<b>54</b>	<b>82</b>	<b>50.4%</b>
- Business	54	82	50.4%

<b>TV customers</b>	<b>392</b>	<b>390</b>	<b>-0.6%</b>
- Residential	370	367	-0.9%
- Business	22	23	4.0%
<b>thereof IPTV</b>	<b>338</b>	<b>327</b>	<b>-3.3%</b>
- Residential	318	306	-3.6%
- Business	21	21	0.8%
<b>thereof Cable TV</b>	<b>6</b>	<b>6</b>	<b>0.2%</b>
- Residential	6	6	0.2%
- Business	0	0	2.9%
<b>thereof Satellite TV</b>	<b>48</b>	<b>57</b>	<b>18.5%</b>
- Residential	46	54	17.6%
- Business	2	2	42.5%
<b>Fixed-line customers</b>	<b>2</b>	<b>2</b>	<b>7.4%</b>
<b>VPN connection points</b>	<b>5</b>	<b>5</b>	<b>14.0%</b>
<b>Broadband retail ARPA (monthly average for the period in HRK)</b>	<b>125</b>	<b>125</b>	<b>0.2%</b>
- Residential	123	123	-0.5%
- Business	132	138	4.1%
<b>TV ARPU (monthly average for the period in HRK)</b>	<b>80</b>	<b>80</b>	<b>0.4%</b>
- Residential	79	79	0.2%
- Business	95	97	2.9%
<b>Data lines in 000</b>			
<b>Total data lines</b>	<b>5</b>	<b>5</b>	<b>-3.8%</b>
<b>Wholesale customers in 000</b>			
<b>CPS (Carrier Pre-Selection)</b>	<b>19</b>	<b>13</b>	<b>-32.5%</b>
<b>NP (Number portability) users/number</b>	<b>740</b>	<b>797</b>	<b>7.7%</b>
<b>ULL (Unbundled Local Loop)</b>	<b>174</b>	<b>165</b>	<b>-5.4%</b>

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

<sup>2)</sup> Total traffic is generated by fixed retail mainlines as defined in note 1.

<sup>3)</sup> Payphones excluded

<sup>4)</sup> Includes ADSL, FTTH and Naked DSL

<sup>5)</sup> Includes Naked Bitstream + Bitstream

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

## Highlights:

- Top line above Q1 2014 by 0.7%, without Optima Telekom contribution lower by 4.0% (6.2% lower in 1Q 2014 vs. 2013)
- EBITDA decline slowed down in 1Q 2015 to 1.2%; without Optima Telekom contribution, fall would be 5.1% (in 1Q 2014 fall was 5.8%),
- Capex spending higher than in Q1 2014
- HC optimization realized in Q1 earlier than planned
- Further outsourcing of internal processes (ARAMIS – shared HR services, TESA – shared accounting services)
- In mobile network increased download throughput up to 150 Mbps

## Mobile telecommunications

The mobile customer base decreased by 2.5%, to 2,214 thousand customers in Q1 2015 from 2,272,000 customers in Q1 2014, mainly as a result of aggressive competitive offers on the market and a decrease in customers with double SIM cards due to the continuing trend of favourable flat and cross net offers.

The number of postpaid customers was 0.7% higher than in Q1 2014, in both the residential (by 0.7%) and business (by 0.8%) segments. This was the result of the promotion of successful, attractive Plan tariffs and handsets as well as mobile internet offers. 4G/LTE smartphones such as the Samsung Galaxy A5 and A3 and Galaxy Note Edge were available within the Plan za zabavu XL tariff along with a complimentary popular selfie stick. Offers such as changes in split contract instalment amounts, HOP and tweaking of Plan tariffs seen in 2014 helped to stabilize and increase the Group's mobile market share. In addition, increased business was driven by growth in machine to machine (M2M).

As of mid-February, HT doubled the maximum mobile Internet speed in its 4G mobile network from 75 Mbit/s to 150 Mbit/s, which is now accessible to a considerable number of Croatian residents. This doubling of the Internet speed offers customers numerous new services related to live TV, HD video streaming and online gaming.

HT launched a reservation system for the Samsung Galaxy S6 and Samsung Galaxy S6 Edge through its web shop at the end of March. These handsets were presented in the beginning of March at the Mobile World Congress 2015 in Barcelona.

The number of prepaid customers was 5.6% lower than in Q1 2014 due to strong competition and an overall decline in the prepaid market. On-going MNP and retention efforts in the prepaid segment as well as a focus on providing additional value are being undertaken to mitigate this on-going decline.

The Simpa offer has been further enriched with the “Tjedna porcija” option – 500 minutes, 500 messages and 500 MB at a very affordable price (HRK 15 per week). This offer was further enhanced by the addition of the high-end smartphone Microsoft Lumia 535.

The Bonbon offer has continued its attractive 4G mobile Internet option campaign and also continued to bring its customers additional value through promotions for postpaid and prepaid customers offering three medium Internet packages for HRK 1.

The Multiplus mobile promotion was launched at the beginning of March offering double the amount of Multiplus card points and additional kunas for every top up.

24mobi, the first media virtual network in this part of Europe which T-HT launched in May 2014 together with 24sata daily, introduced a promotional offer for all new and existing customers offering double the amount of minutes, messages and megabytes in all Ninja options.

Minutes of usage per average customer in Q1 2015 increased by 4.5% compared to the same period the previous year due to the introduction of flat offers and bundles with high amounts of minutes in postpaid and prepaid tariffs, in line with overall market trends.

Blended ARPU decreased by 5.6% compared to Q1 2014, as a result of a very competitive market driven by attractive offers for customers. Additionally, the economic situation and further EU regulations on roaming prices also impacted ARPU.

## **Fixed line**

By the end of March 2015, total fixed access mainlines of 1,027,000 were 7.3% lower than in March 2014. The decline, seen in both segments, was exacerbated by the telecommunication market trend of fixed to mobile and IP substitution, regulation and enforced competition. Nevertheless, T-HT continues with proactive and reactive churn prevention offers and initiatives.

To mitigate the on-going decline, a fixed line promotion was introduced, offering phone connections for HRK 1 with 24 MCD accompanied by the new attractive fixed line tariffs Halo Non stop.

Fixed telephony users generated 353 million of minutes in Q1 2015, which was 17.3% lower than in the same period the previous year as a result of a shrinking customer base and fixed to mobile substitution.

Fixed voice ARPA decreased by 6.2% in comparison to Q1 2014, as a result of general market trends outlined above.

## **Internet**

The TV customer base decreased by 0.6% to 390,000 customers in March 2015 from 392,000 customers in March 2014 as a result of aggressive competitive bundle offers available on the market.

TV ARPU was 0.4% higher than in Q1 2014, however. This was the result of continuous service and program offer improvements driven by premium content (e.g. additional program packages and video on demand) and enriched exclusive TV content with a new program, Arena Sport 5, and HBO premium TV packages.

Furthermore, new attractive promotions were launched offering MAXtv for HRK 1 for first the six months of usage with MCD 24, which is available to all MAX2, ULTRA, Maxobitelj and MAXadsl customers. HT continued to promote the 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 traditional IPTV service, continues to expand with continuous improvements in offers providing more value for customers and is expected to contribute significantly to the overall success of the Group's TV services, resulting in 18.5% more customers than in Q1 2014.

HT continued to promote convergent and joint mobile/fixed activities including MAXobitelj, which was further enhanced to provide more benefits to customers such as favourable mobile tariffs, more mobile Internet and top-class smartphones and tablets.

The broadband retail customer base was 2.7% lower than in the same period the previous year, reaching 607,000, due to stronger competition and aggressive offers in the market.

At the same time, broadband retail ARPA was 0.2% up on Q1 2014. Business ARPA increased by 4.1% due to upselling to high value tariffs and high speeds. Residential ARPA was 0.5% lower due to migrations to flat packages and bundle offers.

HT continues to promote its MAX2/MAX3 packages accompanied by attractive tablet and smartphone offers. Furthermore, HT continues to offer its Ultra MAX fibre optic packages at the price of standard MAX packages for the first three months of usage. The packages offer 10 times higher speed compared to MAX packages for residential customers. This is a step forward in expanding T-HT's fiber optic network, which enables the fastest Internet in accordance with the pace of modern life and the demand for fast and uninterrupted consumption of digital content.

## **Data**

The number of data lines was 3.8% lower compared to Q1 2014. Traditional data lines have been decreasing since HT has been promoting migration to its IP based products.

In Q1 2015 the Group launched Cloud VPN, Deutsche Telekom's first commercial service based on its centralized Pan-European IP network. HT took over hosting services for three members of the DT group (Croatia, Hungary and Slovakia), and also for all others that are scheduled to join this service. The Cloud VPN service uses a self-service online portal to give customers a simple way to select, subscribe to and activate highly secure and scalable Internet services.

## **Wholesale**

In Q1 2015 there were 165,000 active ULL lines, down 5.4% in comparison to Q1 2014. The ULL market declined due to a greater focus by alternative operators on broadband services. Broadband

wholesale access lines (DSL and naked DSL lines) reached 82,000, up 50.4% compared with Q1 2014.

The number of WLR lines reached 112,000 compared to 120,000 in Q1 2014 as a result of the declining voice market.

As a consequence of the WLR offer, the number of “pure” CPS customers reduced to 13,000 in Q1 2015, a decrease of 32.5% compared to the same period the previous year.

In Q1 2015, 797,000 ported numbers were recorded from HT’s fixed network to other fixed networks, which is 7.7% higher than in Q1 2014. The growth in the number of ported numbers compared to previous year is mainly connected with the growth of NBSA services.

Regulated prices for services of fixed and mobile termination and fixed origination were reduced as of 1 January 2015.

Visitor roaming services were an important source of international wholesale revenue in Q1 2015. The overall impact of the application of EU regulated prices (starting in 2013, with a further decrease in 2014) continued also in 2015 contributing to further growth in roaming usage by foreign visitors in HT mobile network, and by HT retail users abroad. Visitors generated 34.4% more voice originating minutes and 202.6% more data traffic than in the same quarter of the previous year. At the same time, on the wholesale cost side, HT’s mobile customers generated 26.4% more roaming originated voice traffic in foreign countries and 168.0% more data traffic compared to Q1 2014.

Total capacity of data and IP services sold to foreign operators increased by 22.8%, contributing to wholesale international revenue.

The third significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminated into the HT mobile network increased by 31.6% compared to Q1 2014, while international traffic into the HT fixed network decreased by 27.6% at the same time.

## **ICT**

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

The strongest growth in the Group was in customized ICT solutions, IP communication and Direct Banking Solutions projects.

The ICT Marketplace portfolio was extended with new services in the Cloud segment, Cloud Fax and Olive Box, while the solutions portfolio was extended with Ticketing and Document Management solutions.

### 3. Group financial performance

#### 3.1 Revenue

in HRK million (IFRS)	Q1 2014	Q1 2015	% of change A15/A14
Voice revenue	666	568	-14.8%
Non voice revenue	702	661	-5.9%
Other service revenue <sup>1)</sup>	143	146	1.7%
Terminal equipment	68	72	5.8%
Miscellaneous <sup>1)</sup>	27	172	528.1%
<b>Revenue</b>	<b>1,607</b>	<b>1,619</b>	<b>0.7%</b>

<sup>1)</sup> In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -15 million) to Other service revenue (HRK +15 million) was made for 1Q 2014.

Total consolidated revenue increased by 0.7% to HRK 1,619 million in 1Q 2015 from HRK 1,607 million in 1Q 2014. Increase is driven by higher miscellaneous revenue (HRK 144 million), terminal equipment (HRK 4 million) and other service revenue (HRK 3 million), but partially offset by decrease in voice revenue (HRK 99 million) and non voice revenue (HRK 41 million).

Optima Telekom contribution to Group amounted HRK 75 million and was consisted of HRK 105 million of Optima Telekom third party contribution that was presented in the whole amount under Miscellaneous and HRK 30 million of inter-company relations that decreased mainly non voice wholesale revenue.

Declining trend of voice and non voice revenue is an extension of the negative trend from previous years due to deteriorating economic situation and growing competition influenced by high number of flat tariff offers and strict regulation of fixed business.

Contribution of subsidiaries in Group revenue in 1Q 2015 amounted for Iskon HRK 90 million (1Q 2014: HRK 89 million) and for Combis HRK 80 million (1Q 2014: HRK 86 million).

#### Voice revenue

Voice revenue declined by HRK 99 million or 14.8% in comparison to 1Q 2014 and it was driven by fixed voice revenue (HRK 54 million or 14.7%) and mobile (HRK 45 million or 14.9%). There was negative development in both residential (HRK 53 million or 11.8%) and business segment (HRK 46 million or 20.8%).

In 1Q 2015 fixed retail voice declined by HRK 39 million or 11.9%. From total deviation, HRK 23 million or 9.7% came from residential and HRK 16 million or 17.7% from business. Decline was a result of retail mainlines drop by 7.3% comparing to the same period last year, ongoing fixed to mobile substitution trend due to strong mobile offers which are much more attractive than fixed voice

propositions and strong regulatory environment. Consequently, number of minutes dropped by 17.3% and ARPA voice per access declined by 6.2%.

Fixed wholesale voice decrease (HRK 15 million or 38.9%) was mainly driven by lower fixed national prices (1Q 2015 HRK 0.005 vs 1Q 2014 HRK 0.024), followed by decline in international fixed and mobile (1Q 2015 HRK 0.063 vs 1Q 2014 HRK 0.45) interconnection prices from January 2015.

Mobile voice decline (HRK 45 million or 14.9%) came from both segments; residential by HRK 30 million or 14.3% and business by HRK 15 million or 16.4%. Negative development was result of MTC revenue decline, drop in prepaid and postpaid retail revenue and lower visitors revenue.

MTC revenue dropped by HRK 23 million or 50.9% as a result of mobile termination rate decline - national (1Q 2015 HRK 0.063 vs. 1Q 2014 HRK 0.1282) and international (1Q 2015 HRK 0.063 vs 1Q 2014 HRK 0.45).

Prepaid retail revenue decrease of HRK 12 million or 14.8% was caused by lower customer base by 5.6% and lower ARPU. Customer base was lower due to strong competition and overall decline of prepaid market. Lower ARPU is an outcome of higher focus on prepaid data packages, providing affordable data traffic for prepaid customers and consequently causing higher effect of voice services substitution trend with data.

Postpaid retail revenue decrease of HRK 6 million or 3.7% came from business segment. Despite slightly higher customer base by 0.8% and higher minutes of use per average customers in business, prices are lower due to fierce price competition and EU roaming regulation, continuously followed by unfavourable macro-economic environment. However, residential retail revenue was on the same level as in 1Q 2014 due to stabile customer base and ARPU as a result of continuous promotion of successful Plan tariffs and focus on customer retention.

Visitors revenue declined by HRK 4 million or 58.2% due to lower prices (further price drop from July 2014 due to implementation of EU regulation), although voice traffic increased.

### **Non voice revenue**

Non voice revenue decreased by HRK 41 million or 5.9% in 1Q 2015 in comparison to 1Q 2014. Negative development was result of lower fixed wholesale revenue (HRK 28 million), SMS revenue (HRK 10 million), ADSL (HRK 6 million), other fixed revenue (HRK 4 million) and traditional data (HRK 2 million). This negative development was partially offset by increase of mobile data revenue (HRK 9 million).

Decline in wholesale fixed non voice revenue was result of inter-company relations related to Optima Telekom.

Lower ADSL revenue was result of lower broadband customer base by 2.7%. Decrease in traditional data revenue was driven by migration to IP data and price competition on Ethernet market.



TV revenue was in line with 1Q 2014 related to TV market saturation with various service providers and generally lower spending power of households that are optimizing costs by switching to free to air DVB-T channels.

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

From total deviation in non voice revenue, HRK 33 million or 12.8% came from business and HRK 8 million or 1.8% from residential.

#### **Other service revenue**

Increase in other service revenue by HRK 3 million or 1.7%, in comparison to 1Q 2014 was mainly driven by higher E-Tours contribution.

#### **Terminal equipment**

Terminal equipment revenue increased by HRK 4 million or 5.8% in comparison to 1Q 2014. This development was a result of positive effects of split contract and more valuable handsets sold in business segment resulting with higher revenue by HRK 9 million or 49.8%. On the other side, residential revenue was lower by HRK 5 million or 11.1% due to lower prices of handsets, followed by higher share of customers on lower value tariffs.

#### **Miscellaneous**

Increase in miscellaneous by HRK 144 million or 528.1% in comparison to 1Q 2014, was mainly driven by Optima Telekom consolidated segment revenue in amount of HRK 105 million.

Without this effect, increase of HRK 40 million was mostly result of new fee introduced from 1st of July, which has been charged to the mobile customers as a result of new fee enforced by government (HRK 31 million) and higher revenue from energy business (HRK 11 million) due to increased customer base. Decrease of national roaming revenue by HRK 2 million driven by lower prices had partially offset this positive development.

#### **Other operating income**

Other operating income decreased by HRK 19 million or 45.9% compared to 1Q 2014 mainly as a result of lower income from penalties and fees related to court decision in the collection process.

## 3.2 Operating expenses

Total consolidated operating expenses increased by HRK 19 million or 1.7% to HRK 1,092 million in 1Q 2015.

This increase was particularly due to negative development of other expenses (HRK 55 million) compensated with decrease of material expenses (HRK 21 million), employee benefits expenses (HRK 11 million) and write down of assets (HRK 4 million).

Excluding redundancy costs (1Q 2015: HRK 73 million vs. 1Q 2014: HRK 54 million) and Optima Telekom contribution of HRK 51 million in 1Q 2015, operating expenses decreased by HRK 51 million or 5.0% to HRK 968 million in 1Q 2015.

### 3.2.1 Material expenses

Material expenses decreased from HRK 457 million in 1Q 2014 to HRK 436 million in 1Q 2015 as a result of lower merchandise, material and energy expenses (HRK 13 million or 4.6%) and services expenses (HRK 8 million or 4.6%).

Merchandise costs decrease (HRK 18 million) was mainly driven by lower mobile merchandise costs (HRK 13 million) and ICT (HRK 13 million), while fixed merchandise was higher (HRK 7 million) compared to 1Q 2014.

Mobile merchandise cost decrease was primarily driven by residential segment (HRK 14 million) as a result of higher share of customers with lower value tariffs, taking cheaper handsets, however, slightly offset with increase of HRK 1 million in business segment. ICT merchandise decrease was due to different dynamic of projects.

Increase in fixed segment, driven by business (HRK 5 million) and residential (HRK 2 million), was a result of higher customer retention activities.

Decrease of material and energy costs (HRK 5 million) was mainly a result of savings made by shutting down of exchanges in PSTN migration in Q4 2014. On the other hand, increase of energy sales costs (HRK 10 million) is primarily a result of higher number of customers.

Decrease in services expenses mainly came from lower copyright fees and telecommunication costs partially offset by higher other services purchased costs.

Lower copyright fees (HRK 10 million) were caused by higher share of capitalized content rights contracts and lower number of TV customers by 0.6%.

Domestic telecommunication cost declined (HRK 17 million) mainly due to lower fixed (FTR) and mobile (MTR) unitary termination price from January 2015 as well as lower fixed traffic by 17.3%. From total deviation, HRK 15 million came from residential and HRK 9 million from business segment, what was partially offset by higher costs coming from Optima Telekom consolidated segment in amount of HRK 8 million.

International telecommunication cost increase (HRK 14 million) primarily came from Optima Telekom consolidated segment in amount of HRK 15 million.

Other services purchased costs increase (HRK 4 million) primarily came from Optima Telekom consolidated segment.

Excluding Optima Telekom contribution of HRK 26 million, material expenses decreased by HRK 47 million.

### **3.2.2 Employee benefits expenses**

Total employee benefits expenses decreased by HRK 11 million or 3.6% to HRK 304 million in 1Q 2015.

Excluding redundancy costs (1Q 2015: HRK 73 million vs. 1Q 2014: HRK 54 million) and Optima Telekom contribution of HRK 14 million in 1Q 2015, employee benefits expenses decreased by HRK 44 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 1st of July 2014.

Number of FTE decreased from 5,493 in 1Q 2014 to 4,985 in 1Q 2015 mainly due to transfer of 631 FTEs from HT's technology unit for the construction and maintenance to Ericsson Nikola Tesla from 1st of September 2014. Besides that, decrease in number of FTEs was result of Headcount Restructuring program and reorganization. This impact was partially compensated by new employments coming from company transformation. Optima Telekom contributed with 400 FTEs.

### **3.2.3 Other expenses**

Other expenses increased by HRK 55 million or 19.1% to HRK 343 million in 1Q 2015 primarily due to negative effect of higher licences (HRK 44 million) and maintenance (HRK 10 million).

Increase in licences was mostly driven by new block of spectrum and due to higher governmental spectrum fee that has been introduced on May 23rd 2014. Increase in maintenance was a result of outsourcing of HT's technology unit for the construction and maintenance. In addition, maintenance costs from Optima Telekom (HRK 4 million) also contributed to the cost increase.

## **3.3 Write down of assets**

The assets write down decreased by HRK 4 million or 17.6% to HRK 21 million in 1Q 2015. This decrease was mainly driven by business segment (HRK 22 million) as a result of value adjusted receivables in 1Q 2014 from domestic telecommunication operators. This was partially offset with increase in residential segment (HRK 16 million) mainly coming from mobile as a result of higher intensity of court claims. Optima Telekom consolidated segment contributed in amount of HRK 1 million.

## **3.4 Depreciation and amortization**

Depreciation and amortization were higher than in 1Q 2014 by HRK 33 million or 10.2%. Optima Telekom consolidation effect amounted to HRK 27 million.

### 3.5 HT Group profitability

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
Revenue	1,607	1,619	0.7%
EBITDA before exceptional items	630	622	-1.2%
Exceptional items <sup>1</sup>	54	73	34.3%
EBITDA after exceptional items	575	549	-4.6%
EBIT (Operating profit)	250	191	-23.7%
Net profit after non controlling interests	199	151	-24.0%
EBITDA margin before exceptional items	39.2%	38.4%	-0.7 p.p.
EBITDA margin after exceptional items	35.8%	33.9%	-1.9 p.p.
EBIT margin	15.6%	11.8%	-3.8 p.p.
Net profit margin	12.4%	9.3%	-3.0 p.p.

1) Exceptional items refer to redundancy costs

EBITDA before exceptional items decreased by HRK 8 million or 1.2% to HRK 622 million in 1Q 2015 mainly as a result of lower other operating income (HRK 19 million or 45.9%) partially compensated by higher revenue (HRK 11 million or 0.7%).

Optima Telekom contribution to Group EBITDA was HRK 25 million and was consisted of HRK 52 million of Optima Telekom third party contribution and HRK 28 million of inter-company relations.

Consolidated net profit after non controlling interests decreased by 24.0% to HRK 151 million in Q1 2015 from HRK 199 million in Q1 2014; excluding higher exceptional items in Q1 2015 vs Q1 2014 (transformation-related redundancy costs of HRK 19 million) net profit would have fallen 14.6% to HRK 170 million.

This decrease was primarily a result of EBITDA development additionally influenced by higher exceptional items (transformation related redundancy costs by HRK 19 million) and depreciation and amortization (HRK 33 million), as well as lower net financial income (HRK 6 million), partially compensated by lower taxation (HRK 9 million) and contribution of non-controlling interests (HRK 9 million).

Negative contribution of net financial income by HRK 6 million was result of higher financial expenses from Optima Telekom (HRK 8 million) followed by lower income from investment in joint ventures (HRK 3 million) what is slightly compensated with higher exchange rate gain (HRK 5 million).

Optima Telekom contributed to Group net profit by loss of HRK 2 million.

### 3.6 Balance sheet

The total value of assets remained stable in comparison to the end of 2014.

Total issued capital and reserves increased to HRK 11,387 million at 31 March 2015 from HRK 11,235 million at 31 December 2014 because of realized net profit for Q1 2015 of HRK 151 million.

Total current liabilities decreased by HRK 115 million to HRK 1,774 million at 31 March 2015 mainly due to the settlement of higher payables for capital expenditures at year end.

### 3.7 Cash flow

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

Compared to 1Q 2014, net cash flow from operating activities decreased by 14.2% mainly due to decrease of profit before tax (EBT) and higher trade payables payments volume.

Net cash flow from investing activities decreased by 11.8% mainly due to higher financial investment and higher payments for capital expenditures.

Net cash flow from financing activities decreased by 30.5 % mainly due to higher financial borrowings repayments coming from Optima Telekom and slightly higher repayment of content contracts.

### 3.8 Capital expenditure

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
HT Group	188	253	34.5%
Capex / Revenue ratio	11.7%	15.6%	3.9 p.p.

Capital expenditure realization of HRK 253 million was higher by 65 million or 34.5% in 1Q 2015 than in the same period last year.

In the 1Q 2015, focus was on a further development of the network infrastructure, increase of broadband access capacity and availability as well as IP transformation implementation to secure business continuity and long-term sustainability of market position.

Mobile broadband deployment continued enabling outperformance in comparison to competition in mobile broadband services, coverage, capacity, scalability and performance. Download throughput for 4G technology was increased to 150 Mbps on LTE1800 coverage and to 115 Mbps on LTE800 coverage area. Coverage and access capacity of mobile broadband increased by realization of 9 new sites, 42 new 3G services and 49 new 4G services. In addition, transmission systems for 165 2G

services are migrated to IP technology. At the end of Q1 2015, HT's 4G network reached 49% and its 3G network had 77% population coverage indoor.

In the area of fixed networks, investment in the existing optical access network continued, achieving 101,234 households passed with FTTH access. In addition, investment in copper access network continued thus 66% locations were equipped

with VDSL equipment and six projects for access network modernization were finished with significant access loop shortening.

The implementation of the all-IP service platform is a strategic priority for the business transformation in the period from 2012 to 2015. By the end of March 2015, in total 959,939 (84.2%) customers were migrated from obsolete TDM voice technology to IP. Upgrade of existing TV platform by implementation of new recommendation engine is finished in order to improve customer experience. In HT Metro Ethernet Network, six new 10Gbps IP routers were installed, migration of customers is ongoing.

IT activities and accomplishments were focused to technology realization of 'digital company' business model and 'on-line' business model transformation, convergence of the business portfolio (Next generation portfolio - Tina), and consolidation of information systems and business support (CRM/Billing, Ultimet upp, Easy to partner - Steckerleiste, etc). Integration of IT infrastructure with migration of systems is ongoing.

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

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

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

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

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

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

The Optima consolidated unit includes the contribution of all Optima Telekom's functions to the group financial results following the same reporting structure as is used for other operating segments, except revenue details that are only reported in the total amount 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 is undertaken, and Optima Telekom non financial KPIs are not included into Group achievements.

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

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

#### 4.1 Residential Segment

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
Voice revenue	446	393	-11.8%
Non voice revenue	442	434	-1.8%
Other service revenue <sup>1)</sup>	11	11	6.8%
Terminal equipment	49	44	-11.1%
Miscellaneous <sup>1)</sup>	3	39	
<b>Revenue</b>	<b>951</b>	<b>921</b>	<b>-3.1%</b>
<b>Operating expenses</b>	<b>294</b>	<b>281</b>	<b>-4.5%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>657</b>	<b>640</b>	<b>-2.5%</b>

<sup>1)</sup> In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -9 million) to Other service revenue (HRK +9 million) was made for 1Q 2014.

#### 4.2 Business Segment

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
Voice revenue	220	175	-20.8%
Non voice revenue	260	227	-12.8%

Other service revenue <sup>1)</sup>	133	135	1.3%
Terminal equipment	19	28	49.8%
Miscellaneous <sup>1)</sup>	24	28	15.9%
<b>Revenue</b>	<b>656</b>	<b>593</b>	<b>-9.7%</b>
<b>Operating expenses <sup>2)</sup></b>	<b>338</b>	<b>296</b>	<b>-12.3%</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>319</b>	<b>296</b>	<b>-7.0%</b>

<sup>1)</sup> In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -6 million) to Other service revenue (HRK +6 million) was made for 1Q 2014.

<sup>2)</sup> Operating expenses per segment for 2014 changed in comparison to originally reported in 2014 due to organisational changes in 2014

### 4.3 Network and support functions

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
Other operating income	41	21	-48.1%
Operating expenses <sup>1)</sup>	387	388	0.4%
Contribution to EBITDA before exceptional items	-346	-367	-6.2%

<sup>1)</sup> Operating expenses per segment for 2014 changed in comparison to originally reported in 2014 due to organisational changes in 2014

### 4.4. Segment Optima Telekom consolidated

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
Miscellaneous	0	105	-
Revenue	0	105	-
Other operating income	0	1	-



<b>Operating expenses</b>	<b>0</b>	<b>53</b>	<b>-</b>
<b>Contribution to EBITDA before exceptional items</b>	<b>0</b>	<b>52</b>	<b>-</b>

## 5. Hrvatski Telekom Inc. financial highlights

### Revenue

Revenue decreased HRK 60 million to HRK 1,396 million in 1Q 2015 from HRK 1,455 million in 1Q 2014. Decrease was driven by lower voice (HRK 94 million) and non voice revenue (HRK 17 million) primarily related to decline in ADSL revenue. This was partially compensated with increase in miscellaneous revenue (HRK 40 million) mostly resulting from new fee charged to the mobile customers enforced by government, other service revenue (HRK 7 million) driven by ICT, and terminal equipment (HRK 4 million).

### EBITDA before exceptional items

EBITDA before exceptional items decreased by HRK 46 million to HRK 572 million in 1Q 2015 from HRK 618 million in 1Q 2014, mainly as a result of lower revenue (HRK 60 million) and lower other operating income (HRK 19 million) partially compensated by lower operating expenses (HRK 32 million).

HT Inc. operating expenses before exceptional items decreased by HRK 32 million to HRK 844 million in 1Q 2015 from HRK 876 million in 1Q 2014.

This decrease was resulting from lower material expenses (HRK 33 million), employee benefits expenses (HRK 44 million) and write down of assets (HRK 7 million), what was partially offset with increase in other expenses (HRK 48 million) primarily due to negative effect of higher licences and maintenance costs and lower work performed by the Group and capitalised (HRK 4 million).

Material expenses decreased mainly because of lower telecommunication costs and merchandise.

Excluding redundancy costs (1Q 2015: HRK 71 million vs. 1Q 2014: HRK 54 million), employee benefits expenses decreased by HRK 44 million due to lower number of FTEs, and lower rights from the Collective agreement.

### Net profit after non controlling interests

Net profit after non controlling interests decreased by HRK 50 million to HRK 149 million in 1Q 2015 from HRK 199 million in 1Q 2014. This decrease was primarily a result of EBITDA development

additionally influenced by higher exceptional items (transformation related redundancy costs by HRK 16 million) and higher depreciation and amortization (HRK 4 million), partially compensated by higher net financial income (HRK 4 million) and lower taxation (HRK 12 million).

## **6. 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.

## **7. Group 2015 outlook unchanged**

### **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**

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 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.

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.

## 8. HT Group Financial statements

### 8.1 Consolidated Income Statement

in HRK million (IFRS)	Q1 2014	Q1 2015	% of change A15/A14
Voice revenue	666	568	-14.8%
Non voice revenue	702	661	-5.9%
Other service revenue <sup>1)</sup>	143	146	1.7%
Terminal equipment	68	72	5.8%
Miscellaneous <sup>1)</sup>	27	172	528.1%
<b>Revenue</b>	<b>1,607</b>	<b>1,619</b>	<b>0.7%</b>
Other operating income	41	22	-45.9%
<b>Total operating revenue</b>	<b>1,648</b>	<b>1,641</b>	<b>-0.5%</b>
<b>Operating expenses</b>	<b>1,073</b>	<b>1,092</b>	<b>1.7%</b>
Material expenses	457	436	-4.6%
Employee benefits expenses	316	304	-3.6%
Other expenses	288	343	19.1%
Work performed by the Group and capitalised	-13	-13	1.8%
Write down of assets	25	21	-17.6%
<b>EBITDA</b>	<b>575</b>	<b>549</b>	<b>-4.6%</b>
Depreciation and amortization	325	358	10.2%
<b>EBIT</b>	<b>250</b>	<b>191</b>	<b>-23.7%</b>

Financial income	13	18	36.1%
Income/loss from investment in joint ventures	0	-2	
Financial expenses	18	27	48.0%
<b>Profit before taxes</b>	<b>246</b>	<b>180</b>	<b>-26.7%</b>
Taxation	48	38	-19.8%
<b>Net profit</b>	<b>199</b>	<b>142</b>	<b>-28.3%</b>
Non controlling interests	0	-9	-
<b>Net profit after non controlling interests</b>	<b>199</b>	<b>151</b>	<b>-24.0%</b>
Exceptional items <sup>2)</sup>	54	73	34.3%
<b>EBITDA before exceptional items</b>	<b>630</b>	<b>622</b>	<b>-1.2%</b>

<sup>1)</sup> In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -15 million) to Other service revenue (HRK +15 million) was made for 1Q 2014.

<sup>2)</sup> Related to redundancy restructuring costs

## 8.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2014	At 31 Mar 2015	% of change A15/A14
Intangible assets	1,716	1,644	-4.2%
Property, plant and equipment	5,577	5,544	-0.6%
Non-current financial assets	735	739	0.5%
Receivables	121	108	-10.5%
Deferred tax asset	51	50	-1.2%
<b>Total non-current assets</b>	<b>8,200</b>	<b>8,085</b>	<b>-1.4%</b>
Inventories	115	128	10.6%
Receivables	1,525	1,465	-3.9%
Current financial assets	1,539	770	-49.9%
Cash and cash equivalents	2,192	3,111	41.9%
Prepayments and accrued income	264	247	-6.5%
<b>Total current assets</b>	<b>5,635</b>	<b>5,720</b>	<b>1.5%</b>

<b>TOTAL ASSETS</b>	<b>13,835</b>	<b>13,806</b>	<b>-0.2%</b>
Subscribed share capital	8,883	8,883	0.0%
Reserves	409	410	0.1%
Revaluation reserves	2	8	316.7%
Retained earnings	673	1,816	169.6%
Net profit for the period	1,142	151	-86.8%
Non controlling interests	125	119	-4.8%
<b>Total issued capital and reserves</b>	<b>11,235</b>	<b>11,387</b>	<b>1.3%</b>
Provisions	71	76	6.4%
Non-current liabilities	590	521	-11.6%
Deferred tax liability	50	49	-2.7%
<b>Total non-current liabilities</b>	<b>711</b>	<b>646</b>	<b>-9.2%</b>
Current liabilities	1,742	1,595	-8.5%
Deferred income	111	99	-11.0%
Provisions for redundancy	35	80	126.1%
<b>Total current liabilities</b>	<b>1,889</b>	<b>1,774</b>	<b>-6.1%</b>
<b>Total liabilities</b>	<b>2,600</b>	<b>2,419</b>	<b>-6.9%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,835</b>	<b>13,806</b>	<b>-0.2%</b>

### 8.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Q1 2014	Q1 2015	% of change A15/A14
Profit before tax	246	180	-26.7%
Depreciation and amortization	325	358	10.2%
Increase / decrease of current liabilities	-80	-191	-136.8%
Increase / decrease of current receivables	111	124	11.7%
Increase / decrease of inventories	-24	-12	49.6%
Other cash flow increases / decreases	-88	-40	54.9%

<b>Net cash inflow/outflow from operating activities</b>	<b>489</b>	<b>420</b>	<b>-14.2%</b>
Proceeds from sale of non-current assets	0	3	
Proceeds from sale of non-current financial assets	1	0	-20.5%
Interest received	7	6	-19.8%
Other cash inflows from investing activities	918	1,001	9.1%
<b>Total increase of cash flow from investing activities</b>	<b>926</b>	<b>1,011</b>	<b>9.2%</b>
Purchase of non-current assets	-208	-232	-11.9%
Purchase of non-current financial assets	0	0	-
Other cash outflows from investing activities	-90	-225	-149.0%
<b>Total decrease of cash flow from investing activities</b>	<b>-298</b>	<b>-457</b>	<b>-53.4%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>628</b>	<b>553</b>	<b>-11.8%</b>
<b>Total increase of cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-</b>
Repayment of loans and bonds	0	-8	
Dividends paid	0	0	21.1%
Repayment of finance lease	-1	-2	-95.1%
Other cash outflows from financing activities	-46	-52	-11.3%
<b>Total decrease in cash flow from financing activities</b>	<b>-47</b>	<b>-62</b>	<b>-30.5%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-47</b>	<b>-62</b>	<b>-30.5%</b>
<b>Exchange gains/losses on cash and cash equivalents</b>	<b>1</b>	<b>7</b>	<b>565.8%</b>
Cash and cash equivalents at the beginning of period	2,039	2,192	7.5%
Net cash (outflow) / inflow	1,071	919	-14.2%
<b>Cash and cash equivalents at the end of period</b>	<b>3,110</b>	<b>3,111</b>	<b>0.0%</b>

Note: 2014 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

#### 8.4 Consolidated EBITDA reconciliation

in HRK million	Q1 2014	Q1 2015	% of change A15/A14
<b>Segment Result (Contribution to EBITDA)</b>			
Residential Segment	657	640	-2.5%
Business Segment	319	296	-7.0%

Network and Support Functions	-346	-367	-6.2%
Segment Optima consolidated	0	52	-
<b>Total Contribution to EBITDA before exceptional items of the Segments</b>	<b>630</b>	<b>622</b>	<b>-1.2%</b>
Exceptional items	54	73	34.3%
<b>Total EBITDA</b>	<b>575</b>	<b>549</b>	<b>-4.6%</b>

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

in HRK million (IFRS)	Q1 2014	Q1 2015	% of change A15/A14
Mobile	637	623	-2.2%
Fixed telephony	315	275	-12.9%
Wholesale	115	73	-36.7%
IP Revenue	395	388	-1.7%
Data	23	20	-10.7%
ICT	113	114	0.2%
Miscellaneous	8	113	
Energy	0	11	
Other non telco services	1	3	147.3%
<b>Revenue</b>	<b>1,607</b>	<b>1,619</b>	<b>0.7%</b>

## 8.6 Notes to the condensed consolidated financial statements for the three months ended on 31 March 2015

### Basis of preparation

The condensed consolidated financial statements as of 31 March 2015 and for the three months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

### Significant Accounting Policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of HT's consolidated financial statements for the year ended 31 December 2014.

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

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

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

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

### **Segment information**

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

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

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

The Network and Support Functions performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. The Network and Support Functions is included in segment information as a voluntary disclosure since it does not meet the criteria for an operating segment.

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



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

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

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

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

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

Period ended 31 March 2014	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Total HRK millions
Segment revenue	951	656	-	1,607
<i>Service revenues, restated</i>	899	613	-	1,512
<i>Terminal equipment</i>	49	19	-	68
<i>Other, restated</i>	3	24	-	27
Usage related direct costs	(66)	(53)	-	(119)
Income and losses on accounts receivable	3	(27)	-	(24)
Contribution margin I, restated	888	576	-	1,464
Non-usage related direct costs	(134)	(156)	-	(290)
Segment result, restated	754	420	-	1,174
Other income	-	-	40	40
Other operating expenses	(117)	(111)	(411)	(639)
Depreciation, amortisation and impairment of non-current assets	-	-	(325)	(325)
Operating profit, restated	637	309	(696)	250

Period ended 31 March 2015	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Optima Telekom consolidated HRK millions	Total HRK millions
Segment revenue	922	592	-	104	1,618
<i>Service revenues</i>	839	536	-	-	1,375
<i>Terminal equipment</i>	44	28	-	-	72
<i>Other</i>	39	28	-	104	171
Usage related direct costs	(51)	(42)	-	(22)	(115)
Income and losses on accounts receivable	(13)	(5)	-	(2)	(20)
Contribution margin I	858	545	-	80	1,483
Non-usage related direct costs	(117)	(154)	-	(28)	(299)
Segment result,	741	391	-	52	1,184
Other income	-	-	21	-	21
Other operating expenses	(118)	(106)	(430)	(2)	(656)
Depreciation, amortisation and impairment of non-current assets	-	-	(358)	-	(358)
Operating profit	623	285	(767)	50	191

## Relations with the governing company and its affiliated companies

In the first three months of 2015 there were no transactions among related parties with a significant impact on the financial position and operations of the Group in the given period.

In the first three months of 2015 there were no changes in transactions among related parties which were specified in the annual financial report for 2014 and which had a significant impact on the financial position and operations of the Group in the first three months of 2015.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first three months of 2015 and the governing company and affiliated companies thereof can be classified as follows:

### *Transactions with related companies*

Transactions with related companies primarily relate to the transactions with the companies owned by Deutsche Telekom AG (hereinafter referred to as: DTAG). The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies.

In the first three months of 2015 the Group generated total revenue from related companies from international traffic to the amount of HRK 12 million (the first three months of 2014: HRK 13 million), while total costs of international traffic amounted to HRK 4 million (the first three months of 2014: HRK 14 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 4 million in the first three months of 2015 (the first three months of 2014: HRK 6 million).

### *Compensation of the Supervisory Board*

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

In July 2013, the Supervisory Board established the Sustainability Committee. The Committee consists of three members, two external experts and one member of the Supervisory Board. Members of the Sustainability Committee who are not at the same time members of the Supervisory Board are entitled to monthly remuneration in the amount of 0.25 of the average net salary of employees of the Company paid in the preceding month. During 2014, only one member received remuneration, which was not being paid directly to him but in line with his instruction, remuneration was paid out to the benefit of the Fund for award of scholarships to Croatian Homeland War veterans and their children.

Due to the accomplishments of the mission of the Sustainability Committee, in December 2014 the Supervisory Board passed the decision on its termination.

In the first three months of 2015 the Company paid a total amount of HRK 0.1 million (the first three months of 2014: HRK 0.2 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

### *Compensation to key management personnel*

In the first three months of 2015 the total compensation paid to key management personnel of the Group amounted to HRK 8 million (first three months of 2014: HRK 10 million Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

## **9. Statement of the Management Board of Hrvatski Telekom d.d**

To the best of our knowledge, unaudited financial statements of the company Hrvatski Telekom d.d. (hereinafter: "Company") and unaudited consolidated financial statements of the Company and affiliated companies thereof (hereinafter: "Group"), which are prepared in accordance with International Financial Reporting Standards (IFRS), give a true and fair view of assets and obligations, profit and loss, financial position, and operations of both the Company and the Group.

The management report for the first three months of 2015 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, 30 April 2015

## 10. 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.

## 11. Disclaimer

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