



Zagreb – 29 October 2015

Hrvatski Telekom Results for the nine months ended 30 September 2015

Hrvatski Telekom: Increased revenue, profit and profitability

- *Revenue in the first nine months totals HRK 5.2 billion, net profit of HRK 730 million*
- *Completion of IP transformation: HT positioned alongside Europe's leading technology groups*

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited consolidated results for the nine months to 30 September 2015.

During the first nine months of 2015, Hrvatski Telekom recorded an increase of all key financial indicators. During the nine month period, HT revenue grew by 1% year on year to total HRK 5.19 billion. In addition, earnings before interest, taxation, depreciation, and amortisation (EBITDA before exceptional items) reached HRK 2.1 billion, an increase of 1.5% in comparison to the previous year. Furthermore, HT maintained a high EBITDA margin of 40.1%, slightly increased compared to 39.9 % in the same period of the previous year. Net profit in the first nine months of 2015 amounted to HRK 730 million, a 2% increase over the previous year.

Increased investment activities focus on development of high-speed Internet access infrastructure

Along with growth in all key financial indicators, HT's performance in the first nine months of 2015 was characterised by increased capital expenditure. During the nine month period, investments increased by 18% in comparison to the same period of the previous year. For the full 12 months of 2015, HT expects its investments to total more than HRK 1.3 billion, marking a 25% increase over 2014.

The three key areas on which Hrvatski Telekom focused its investment activities in the first nine months of 2015 were as follows: development of the mobile and fixed line infrastructure; increased broadband access capacity; and completion of the IP transformation process.

During the nine month period, 4G network coverage reached 59% of the population. Investment in the expansion of the 4G network will continue and, by the end of the year, the plan is to achieve 4G mobile network coverage for more than 60% of the population, at speeds of up to 150 Mbit/s.

Investment in the fixed network also continued, with optical access provided to 135,881 households. By the end of 2015, 50 % of households will have broadband access on the fixed network at bitrates of a minimum of 30 Mbp/s.

The Horizont strategic program, launched to increase efficiency and improve business operations, is extending across all parts of HT, continuing the transformation of the company that commenced in 2014. Results from the first wave projects are already apparent in terms of cost efficiencies, improved customer experience, the introduction of relevant changes in fixed and mobile communications services, and improved utilisation of technology.

Completion of IP transformation: HT is poised to become the third telecommunications operator in the EU to migrate all its customers and services to an all-IP environment

Within the next 30 days, HT plans to fully complete the extensive process of IP transformation – the modernisation of the fixed telecommunications network, within the scope of which the fixed network telephone lines of all customers will be migrated to IP (Internet Protocol) technology. Currently, 1,125,969 customers, equivalent to 98%, have been migrated. Over the last five years, HT has invested more than HRK 400 million in this IP transformation project.

HT will be the third telecommunications operator in the European Union to migrate all its customers and services to an all-IP environment.

Commenting on the results for the first nine months of 2015, **Davor Tomašković, President of the Management Board of Hrvatski Telekom**, said:

“Looking back on a highly successful third quarter, marked by revenue growth and increased profitability, we are exceptionally proud that after six years we have managed to achieve a turnaround in operational results – with all key financial indicators stabilised, and the upward trend seen in the first half of the year reaffirmed. We continue to focus on increasing our investment in infrastructure development, which will enable us to offer innovative products and the best quality and fastest services on the Croatian market. The successful completion of our IP transformation initiative, which positions Hrvatski Telekom alongside Europe’s top telecommunications operators, is a further endorsement of our position of the absolute technology leader in the Croatian market.”

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A conference call for analysts and investors will be held at 13:00 UK time / 14:00 CET on the same day.

The conference call dial in details are as follows:

International Dial In	+44 (0)1452 555 566
UK Free Call Dial In (from landlines only)	0800 694 0257
Conference ID	53845126

A replay of the call will be available until Thursday, 5 November 2015 using the following details:

International Dial In	+44 (0)1452 550 000
UK Free Call Dial In (from landlines only)	0800 953 1533
Replay Access Code	53845126

A presentation covering results for the nine months of 2015 can be downloaded from the HT web site (www.t.ht.hr/eng/investors/).

1. Review

1.1 Introduction

HT Group continues to make good progress

HT Group has maintained its leading position in the Croatian telecommunications market across all business segments in first nine months of 2015 despite competitive pressure and in parallel has delivered improving trends in revenue and EBITDA in comparison to the same period in 2014, reporting year-on-year growth for the first three quarters of the year.

1.2 Market overview

Fixed-line market

The trend of consolidation in the fixed-line market has continued in 2015. In September 2015 Vipnet completed the acquisition of Amis' business operations in Croatia, while Metronet, a fixed telecommunication and ICT operator, announced that it will list its shares on the Zagreb Stock Exchange.

Fixed-to-mobile voice line and traffic substitution had a significant impact on fixed-line connections and revenue trends. According to the Agency's Q2 2015 report¹, the number of fixed line minutes declined by 16.7% in Q2 2015 as compared with Q2 2014.

HT Group successfully retained its leading position in the fixed line market by launching innovative services such as HT Business Connect, reflecting the Group's continuing dedication to high-quality services and improved offers.

¹ Source: Croatian Post and Electronic Communications Agency

Mobile telecommunications

The mobile market, as measured by SIMs, grew during the summer period under the impact of summer visitors coming to Croatia on vacation. The estimated mobile SIM penetration rate at the end of September 2015 was 119%. HT's share of total mobile customers was 46.3% at the end of September 2015.

The mobile market has been characterised by increasing competition among three mobile operators and regulatory measures that impact mobile revenue. As video and music services proliferate, customers are increasingly using their smartphones and tablets for entertainment, work and social interaction. That impacts mobile voice, messaging and data services usage: the growth trend in mobile MOU is slowing, SMS usage is declining and demand for data is accelerating, stimulated by the roll-out of 4G coverage.

The total Croatian mobile market minutes of use (MOU) grew only 0.9% yoy in Q2 2015. The declining trend of SMSs sent has continued with a reported annual decrease of 8.5% in Q2 2015².

According to the Croatian Post and Electronic Communications Agency³, mobile data traffic during first half of 2015 reached 14.5 million GB.

Internet and PayTV

Croatia had 966,045 fixed broadband connections at the end of June 2015. The Croatian fixed broadband market maintained its growth trend, achieving 3.1% of year on year growth in Q2 2015⁵.

Owing to its fiber optic Ultra MAX packages, HT has maintained its leading position in broadband market. The FTTH-based broadband packages (Fiber to the Home) offer 10 times higher speed compared to ADSL packages.

The HT Group has strong focus on the further development of the network infrastructure, increasing broadband access capacity and availability to maintain its position as the largest fixed broadband operator in Croatia.

HT Group had 603,240 broadband access lines at the end of September 2015.

The Croatian Pay TV market is highly a competitive and expanding market. The Pay TV market grew by 3.2% in Q2 2015, reaching 747,340 customers⁵.

² Source: Croatian Post and Electronic Communications Agency

³ Source: Interview with Mr Dražen Lučić, head of Croatian Post and Electronic Communications Agency, published in ICT Business, 07.10.2015

Data

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

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in Q3 2015 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 95,233 at the end of September 2015 (increase of 44.9% compared to the same period of 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 158,841 ULL access and 107,669 WLRs at the end of the period.

From April 2015, wholesale prices for international nonEU termination to HT fixed and mobile networks were deregulated. Following deregulation prices are set on commercial basis, thus generating additional revenue.

ICT

According to IDC Adriatics⁴, the Croatian ICT market is expected to grow by 2.9% in 2015. All segments of the Croatian ICT market are expected to grow in 2015. The strongest growth is expected in Packaged Software (5.1%), followed by IT services (3.4%) and Hardware (1.9%).

HT Group is well positioned in all three segments by providing standard and customized services, but with a strategic focus on higher margin business – Cloud and Managed services.

1.3 Economic background

Slight recovery in Croatian economy in 2015

Croatian GDP continued to show growth in Q2 2015 (by 1.2% on a yearly basis) as all GDP components recorded growth, especially export and personal consumption. Some further growth in macroeconomic KPIs is expected to continue in the rest of 2015⁵.

Favourable trends were recorded in the labour market in Q3 2015 due to the seasonal effects of temporary employment during tourist season. The registered unemployment rate in August 2015 decreased to 15.9% which, compared to August 2014, represents a decrease of 1.6 percentage

⁴ Source: Croatian IT Market 2015–2019 Forecast and 2014 Vendor Shares, IDC Adriatics, June 2015

⁵ Sources: RBA Quarterly Report No. 59, Raiffeisen Research, October 2015

points⁶. Although these positive trends are encouraging, they are not sufficient to support sustainable recovery in the labour market.

Private consumption grew by 0.6% in real terms in Q2 2015 compared with Q2 2014 as a result of higher disposable net income, a low inflation rate and a good tourist pre-season¹. Average net income reported for July 2015 amounted to HRK 5,716, which is 3.8% higher in real terms than in July 2014². Inflation in Croatia, measured by the Consumer Prices Index (CPI) decreased by 0.6% in August 2015 compared to the CPI level in August 2014.² We expect to see deflation throughout most of 2015.

1.4 Regulatory environment

Deregulation of mobile and fixed termination rates (MTRs/FTRs) outside EU/EEA

According to the HAKOM decision passed on 30 March 2015, MTR/FTRs remain regulated with prices that are applicable as of 1 January 2015.

MTR/FTRs in case of calls originating at numbers belonging to international operators outside EU/EEA and in the case of calls without a number and FTR on a national level are excluded from further regulation. Following this decision, deregulated MTR/FTRs have applied as of 1 April 2015.

Regulation of fixed origination (FOR)

On 30 March 2015 HAKOM announced its decision on regulated FOR. Regulation of FOR is applicable for interconnection on a local and regional level, while interconnection on a national level is excluded from regulation. New regulated FOR prices have been applied as of 1 May 2015 (43% decrease).

IP interconnection

On 28 May 2015 HAKOM passed a decision on defining technical and regulatory conditions for IP interconnection⁷. IP interconnection must be undertaken upon request by the alternative operator under prices applicable for PSTN/TDM interconnection.

Wholesale leased lines markets analyses

On 29 July 2015, after public consultations and prior notification to the European Commission, HAKOM passed its final decisions on the analysis of:

- wholesale trunk segment of leased lines⁸ which is subject to deregulation (market 14) and

⁶ Source: Central Bureau of Statistics

⁷ SIP signalization, message bodies, supported option tags of SIP extensions, identities format, address parameters, signalling mode, media session managements, codec's, domains, routing, billing, testing, QoS, IP interconnection costs, interconnection links, deadline for IP interconnection realization

⁸ In accordance with HAKOM's proposal wholesale trunk segment of leased lines market includes leased lines (Ethernet, xWDM

- wholesale high-quality access provided at a fixed location⁹ (market 4) which is subject to regulation.

According to the HAKOM draft decision, HT in substance remains an operator with significant market power on the leased line market with the currently applicable remedies¹⁰.

Market analysis of wholesale access markets

On 9 July 2015 after public consultations and prior notification to the European Commission, HAKOM passed its final decisions on its analysis of wholesale local access provided at a fixed location (market 3a) and wholesale central access provided at a fixed location for mass-market products (market 3b).

According to the HAKOM decision, HT and its subsidiaries, Iskon and Optima Telekom, remain operators with significant market power on the relevant markets with currently applicable remedies¹¹. Additionally, the decision introduced a regulatory obligation of an MSQ test on retail markets.

Deregulation of retail BB/IPTV market

On 9 July 2015 after public consultations and prior notification to the European Commission, HAKOM passed its final decision on deregulation of retail broadband and the closely connected market of transferring TV channels payable by the customers applicable to HT and its subsidiaries Iskon and Optima Telekom.

Although finally deregulated, in substance the implications for HT are the following:

- deregulation of duration and frequency of promotional offers and
- shorter deadlines for prior notification of new offers to HAKOM (8 instead of 45 days with the transitional period of 5 months with 30 days prior notification).

HT determined as an operator of universal services (USO)

According to the HAKOM decision of 23 September 2015, HT remains an operator of USO services for a further period of four years (from 29 November 2015 to 29 November 2019). HT is obliged to provide the majority of USO services, including providing access to the public telephony network at fixed location and internet services at the speed of 1Mbit/s as the most important USO service¹². Under the

and traditional digital (SDH, PDH, (S)HDSL) leased lines relations) between 16 cities in Croatia where at least two operators beside HT (or HT subsidiary) provides wholesale leased lines.

⁹ All leased lines relations (Ethernet, xWDM and traditional digital (SDH, PDH, (S)HDSL) leased lines relations) other than wholesale trunk segment of leased lines.

¹⁰ Regulatory obligations of access to and use of special network facilities, non-discrimination, transparency, price control and cost accounting obligation, accounting separation.

¹¹ HT regulatory obligations of access, non-discrimination, transparency, price control, cost accounting and accounting separation. Cost accounting and accounting separation obligations are applicable to Iskon and Optima Telekom.

¹² USO services that HT is obliged to provide: access to public telephony network at fixed location, installation of pay-phones, special measures for physically disabled persons and special price list for socially endangered end users.

same decision, HT is no longer obliged to provide access to the telephony number information service (118xxx service)¹³.

New public consultations on relevant market analysis opened by HAKOM

On September 24th 2015 HAKOM opened following public consultation on relevant market analysis:

1. Determination of the monthly fee for ULL price

HAKOM initiated the procedure of changing published proposal of the draft decision determining possibility of HT to increase existing ULL price of HRK 43.61 (EUR 5.8) to the cost based ULL price in the amount of HRK 57.30 (EUR 7.64) that was determined by HAKOM's decision as of December 18th 2013.

HAKOM's proposal determines the possibility of increase through the following two-step process:

- increase of the ULL price to HRK 48.61 (EUR 6.41) can be applied after the expiry of 6 months from the date the final HAKOM decision on the increase is brought (expected 1 July 2016);
- increase of the ULL price to HRK 57.30 (EUR 7.64) can be applied after the expiry of 18 months from the date the final HAKOM decision on the increase is brought (expected 1 July 2017).

Notwithstanding the above, HAKOM has reserved the right to calculate a new cost of ULL services in Q1 2016 that might influence the current cost based ULL price.

The ULL price increase will accordingly lead to an NBSA price increase.

1.5 Changes in reporting

In 2014, the Croatian Competition Agency 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 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 the reporting of financial data necessary for consolidation.

¹³ This service will be provided by another USO provider – Imenik d.o.o.

Respectively only financial statements are consolidated as of 1 July 2014 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	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Revenue	1,854	1,885	1.7%	5,141	5,190	0.9%
EBITDA before exceptional items	769	773	0.5%	2,049	2,080	1.5%
Exceptional items	25	7	-73.3%	115	87	-23.9%
EBITDA after exceptional items	744	766	3.0%	1,934	1,992	3.0%
EBIT (Operating profit)	391	401	2.5%	922	918	-0.4%
Net profit	315	324	2.9%	717	730	1.9%
EBITDA margin before exceptional items	41.5%	41.0%	-0.5 p.p.	39.9%	40.1%	0.2 p.p.
EBITDA margin after exceptional items	40.1%	40.6%	0.5 p.p.	37.6%	38.4%	0.8 p.p.
EBIT margin	21.1%	21.3%	0.2 p.p.	17.9%	17.7%	-0.2 p.p.
Net profit margin	17.0%	17.2%	0.2 p.p.	13.9%	14.1%	0.1 p.p.

in HRK million	At 31 Dec 2014	At 30 Sep 2015	change
Cash and cash equivalents	2,192	2,715	23.9%
Total assets	13,835	13,399	-3.2%
Total issued capital and reserves	11,235	11,385	1.3%

in HRK million	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Net cash flow from operating activities	671	881	31.3%	1,571	1,693	7.8%

RESIDENTIAL SEGMENT

in HRK million	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Revenue	1,015	987	-2.8%	2,948	2,825	-4.2%
Contribution to EBITDA before EI	705	681	-3.3%	2,025	1,975	-2.5%

BUSINESS SEGMENT

in HRK million	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Revenue	725	793	9.3%	2,080	2,042	-1.8%
Contribution to EBITDA before EI	385	400	3.9%	1,069	1,036	-3.1%

NETWORK & SUPPORT FUNCTIONS

in HRK million	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Contribution to EBITDA before EI	-376	-366	2.8%	-1,100	-1,099	0.1%

**SEGMENT OPTIMA TELEKOM
CONSOLIDATED***

in HRK million	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Revenue	113	105	-7.1%	113	323	185.1%
Contribution to EBITDA before EI	55	57	4.0%	55	168	205.6%

*Note: The consolidation of Optima Telekom financial figures started 1 July 2014. The Optima Telekom contribution in the first nine months of 2014 includes just three months results, while in 2015 it includes the full nine months. The Optima consolidated segment does not include full the Optima Telekom consolidation impact since internal transactions in HT Inc and Iskon are included in the business and residential segments. Including internal transactions, Optima Telekom's net contribution to HT Group revenue for the first nine months of 2015 amounts HRK 225 million while the first nine months of 2014 it was HRK 77 million. The EBITDA contribution for the first nine months of 2015 was HRK 78 million while for 2014 it was HRK 21 million.

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Nine months to 30 Sep 2014	7.62	7.63	5.62	6.02
Nine months to 30 Sep 2015	7.60	7.63	6.82	6.79

2. Business Review

Key operational data	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Mobile subscribers in 000						
Number of subscribers	2,332	2,323	-0.4%	2,332	2,323	-0.4%
- Residential	1,857	1,840	-0.9%	1,857	1,840	-0.9%
- Business	475	483	1.8%	475	483	1.8%
Number of postpaid subscribers	1,089	1,112	2.2%	1,089	1,112	2.2%
Number of prepaid subscribers	1,244	1,211	-2.6%	1,244	1,211	-2.6%
Minutes of use (MOU) per average subscriber	191	198	3.5%	188	195	3.9%
- Residential	174	181	3.7%	171	178	4.2%
- Business	259	264	1.8%	253	258	1.8%
Blended ARPU (monthly average for the period in HRK)	81	78	-4.1%	80	75	-5.3%
- Residential	71	69	-3.2%	70	66	-5.0%
- Business	120	112	-7.2%	118	110	-7.2%
Blended non-voice ARPU (monthly average for the period in HRK)	34	37	8.2%	34	35	5.4%
SAC per gross add in HRK	111	76	-31.7%	131	88	-32.6%
Churn rate (%)	2.8	2.2	-0.6 p.p.	2.6	2.3	-0.4 p.p.
Penetration (%) ¹⁾	118	119	0.4 p.p.	118	119	0.4 p.p.

Market share of subscribers (%) ¹⁾	46	46	0.0 p.p.	46	46	0.0 p.p.
Data subscribers (in 000)	1,405	1,491	6.1%	1,405	1,491	6.1%
Smartphone customers (%) ²⁾	35	47	11.4 p.p.	35	47	11.4 p.p.
Smartphones sold (%) ³⁾	73	78	5.0 p.p.	73	78	5.0 p.p.

1) Source: published VIPnet's quarterly report for Q3 2015 and Tele2's quarterly report for Q3 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)

Key operational data	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	1,067	996	-6.7%	1,067	996	-6.7%
- Residential	926	873	-5.7%	926	873	-5.7%
- Business	141	123	-13.2%	141	123	-13.2%
Fixed mainlines - wholesale (WLR)	118	108	-8.6%	118	108	-8.6%
- Residential	103	97	-5.9%	103	97	-5.9%
- Business	15	11	-27.3%	15	11	-27.3%
Total Traffic (mill. of minutes) ²⁾	361	308	-14.7%	1,180	986	-16.4%
- Residential	296	261	-11.9%	963	833	-13.6%
- Business	65	47	-27.2%	217	154	-29.1%
ARPA voice per access (monthly average for the period in HRK) ³⁾	94	88	-6.6%	95	88	-6.9%
- Residential	84	79	-5.9%	84	79	-5.7%
- Business	161	151	-5.9%	164	152	-7.4%
IP mainlines/customers in 000						
Broadband access lines - retail ⁴⁾	617	603	-2.3%	617	603	-2.3%
- Residential	514	504	-1.9%	514	504	-1.9%
- Business	104	99	-4.2%	104	99	-4.2%
Broadband access lines - wholesale ⁵⁾	66	95	44.9%	66	95	44.9%
- Business	66	95	44.9%	66	95	44.9%
TV customers	393	385	-2.1%	393	385	-2.1%
- Residential	370	362	-2.2%	370	362	-2.2%
- Business	23	23	0.3%	23	23	0.3%
thereof IPTV	335	318	-5.1%	335	318	-5.1%
- Residential	314	297	-5.3%	314	297	-5.3%
- Business	21	20	-2.3%	21	20	-2.3%
thereof Cable TV	6	6	-0.4%	6	6	-0.4%
- Residential	6	6	-0.4%	6	6	-0.4%
- Business	0	0	-4.2%	0	0	-4.2%

thereof Satellite TV	53	61	16.7%	53	61	16.7%
- Residential	50	59	16.3%	50	59	16.3%
- Business	2	3	26.4%	2	3	26.4%
Fixed-line customers	2	2	11.4%	2	2	11.4%
VPN connection points	5	5	12.3%	5	5	12.3%
Broadband retail ARPA (monthly average for the period in HRK)	128	128	-0.5%	126	127	0.2%
- Residential	126	125	-1.1%	125	124	-0.5%
- Business	138	142	2.7%	136	140	3.4%
TV ARPU (monthly average for the period in HRK)	80	82	2.4%	80	81	1.1%
- Residential	79	81	1.9%	79	80	0.7%
- Business	98	106	8.2%	96	102	5.8%
Data lines in 000						
Total data lines	5	5	4.3%	5	5	4.3%
Wholesale customers in 000						
CPS (Carrier Pre-Selection)	16	10	-40.4%	16	10	-40.4%
NP (Number portability) users/number	767	864	12.7%	767	864	12.7%
ULL (Unbundled Local Loop)	170	159	-6.8%	170	159	-6.8%

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

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

³⁾ Payphones excluded

⁴⁾ Includes ADSL, FTTH and Naked DSL

⁵⁾ 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

MAJOR ACHIEVEMENTS

FINANCIAL

- Revenue for the first nine months of 2015 increased HRK 49 million, or 0.9%, over the same period in 2014, mainly driven by the Optima Telekom contribution and ICT. Excluding Optima Telekom, there was a decline of HRK 100 million, or 2.0%, mainly driven by voice revenue. But there has been a turnaround in the revenue trend in the third quarter, with growth of HRK 35 million, or 2.0% year on year, in Q3 - even excluding Optima Telekom.
- EBITDA before exceptional items continued to grow and was up HRK 31 million, or 1.5%, compared to the same period the previous year. In 2015, excluding Optima Telekom there

has been a considerable slowing of the declining trend with an EBITDA fall of 1.3% compared to fall of 8.4% in 2014. A solid EBITDA margin has been maintained at 40.1%, with a slight increase compared to 39.9% the previous year.

- CAPEX was up HRK 131 million, or 17.9%, with the focus on further development of the network infrastructure, broadband access and IP transformation to secure business continuity and long-term sustainability of the Group's market position

OPERATIONAL

- Transformation initiatives are ongoing with the focus on cost management and long term market positioning. The strategic program Horizont is impacting all areas in HT. Results from first wave projects are already visible in terms of improved customer experience, relevant changes in fixed and mobile services, and better utilization of the FTTH VDSL technology.
- 4G rollout has continued successfully
- In the mobile network, download throughput increased up to 150 Mbp. In the fixed network, optical access for 135,881 households and 89.8% access nodes equipped by VDSL equipment were achieved.
- The Postpaid (Najbolje tariff) and Prepaid portfolio were redefined with improved customer service
- The MAXobitelj converged offer was further improved and enhanced

Mobile telecommunications

The mobile customer base decreased by 0.4%, to 2,323,000 customers at the end of September 2015 from 2,332,000 customers at the end of September 2014, driven by the residential segment (down 0.9%) mainly as a result of aggressively competitive offers on the market and the decrease of customers with double SIM cards due to the continuing trend of flat and cross net offers. The decline of the residential customer base was partially offset by an increase in the business segment, mainly as a result of the launch of new mobile tariffs "Najbolje" and growth in M2M and Mobile Internet.

The number of postpaid customers was up 2.2% than at the end of September 2014 in both residential (up 2.5%) and business (up 1.6%) segment. This was a result of the ongoing promotion of attractive tariffs and handsets as well as Mobile Net offers.

At the beginning of May, HT launched new subscription plans - "Najbolje" tariffs - which are can be tailored to suit each customers' needs and offer a number of benefits (with 4G speeds and additional services included in the tariff). The launch of "Najbolje" was followed by new media campaign *"ISPLATI SE IMATI NAJBRŽU MREŽU I NOVE, NAJBOLJE TARIFE"* (It is worth having the fastest network and new, best tariffs). 4G/LTE smartphones and tablets like Samsung Galaxy Tab4 10.1 LTE, well suited for experiencing the fastest Internet access speed up to 150 Mbps, were available within the Najbolje mobile net tariffs. Furthermore, within the Najbolje tariffs, customers can opt for additional services such as MAXtv To Go, Navigation or Road Assistance free of charge.

As of mid-February, HT doubled the maximum mobile Internet speed in its 4G mobile network from 75 Mbps to 150 Mbps and this is now accessible to a significant number of Croatian residents. As well as high speeds, it offers customers new services including to live TV, HD video streaming and online

gaming. HT launched its new 4G LTE network speed at an event held in February on Cvjetni square in Zagreb. It has since continued to expand and develop the 4G network.

An independent benchmarking study in June confirmed HT as best mobile network in Croatia with the fastest mobile Internet and the best mobile voice service among all networks in Croatia (P3 Best in Test certificate).

In April, HT launched sales of the Samsung Galaxy S6 and Samsung Galaxy S6 Edge presented in the beginning of March at the Mobile World Congress 2015 in Barcelona. As of 4 September, the Samsung Galaxy S6 Edge +, an upgrade of the Galaxy S6 Edge with a larger screen and enhanced functionality, became available at T-centers and HT's web shop. The iPhone 6s and iPhone 6s Plus, launched this September, can also be reserved and pre-ordered in HT since this October. In addition, to further expand its smart phone offering HT has recently introduced Huawei devices accompanied by attractive gifts and with a discount of as much as HRK 600.

HT mobile customers since July 2015 can also access a new value added service "Pomoć u kući" (Help in the house) which helps with household problems in case of emergency. This service is free of charge in selected "Najbolje" tariffs plans and to other subscribers it is available for only HRK 12 per month. The total value of the service includes repair work worth up to HRK 1,500 a year, against the annual cost of the option of up to HRK 144.

At the end of September 2015, the number of prepaid customers was 2.6% lower than at the end of September 2014 due to the overall decline of the prepaid market and tough competition. Ongoing MNP and retention efforts in the prepaid segment as well as focusing on additional value for HT prepaid customers are underway to mitigate the ongoing decline. New redefined T prepaid tariffs and options were launched in Q2 2015, introducing three new options and "Internet dan 4G". In addition, in Q3 HT introduced a promotional option "Sve" - offering double the amount of minutes, messages and data at the same price. HT also marketed a special offer for tourists this summer: unlimited surfing at 4G speed in a Croatia package for HRK 85.

The Simpa "Zmajaska option"- 3,000 units for HRK 59 monthly or HRK 17.50 per week - was supported by a media campaign. SIMPA customers can tailor their usage of 3,000 units, by combining minutes, SMS and GB. Additionally, the campaign was accompanied by a special offer with the Microsoft Lumia 535 and popular startas shoes, which users can design to suit their style and taste, at a price of HRK 648, with HRK 598 in the Simpa account, for purchases through Simpa webshop.

Bonbon continued to offer added value and, backed by a media campaign, offering discounts on L and XL packages. As well as other bonbon benefits, new postpaid users are able to get 1,000 minutes and 1,000 SMS until 2020 and can set their spending limit according to their personal limits.

Multiplus mobile introduced a new promotion in the middle of June offering additional minutes and discounts on mobile data packages in exchange for Multiplus card points.

Minutes of usage per average customer in January - September 2015 increased by 3.9% compared to the same period last 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 for the first nine months of 2015 decreased by 5.3% compared to the same period last year as a result of very competitive market driven by attractive offers for customers. Additionally, the economic situation and further EU regulations on roaming prices impacted ARPU development as well.

HT launched the new “Najbolja” mobile price premium tariffs in order to shift the current trend and spur market recovery.

Fixed line

HT Group's fixed retail customer base is developing in line with general trends in the telecommunication market (fixed to mobile substitution and IP migration) and at the end of September 2015, HT Group has 996,000 lines, down 6.7% on the previous year.

This decline, seen in both segments, was exacerbated by regulation and intense competition. Nevertheless, HT Group continues to undertake proactive and reactive churn prevention offers and activities.

To mitigate the on-going decline, the Group launched a promotion for fixed line services offering telephone connection for HRK 1 with 24 MCD accompanied by new fixed line tariffs branded “Halo Non stop”.

Fixed telephony users generated 986 million minutes in the first nine months of 2015. That was 16.4% lower than in the same period last year as a result of a shrinking customer base and fixed to mobile substitution.

Fixed voice ARPA decreased by 6.9% in comparison to January – September 2014, as a result of general market trends outlined above.

Internet

The TV customer base decreased by 2.1% to 385,000 customers at the end of September 2015 from 393,000 customers at the end of September 2014 as a result of aggressively priced competitive bundle offers available on the market.

TV ARPU was 1.1% higher than in the first nine months of 2014. 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 enhanced exclusive TV content with the new Arena Sport 5 and HBO premium TV packages.

HT has continued to promote the “best Internet and 6 months TV for HRK 1” – offering MAXtv for HRK 1 for the first 6 months of usage with MCD 24 available to all MAX2 and ULTRA customers, MAXobitelj and MAXadsl customers. In addition, HT continued the promotion of the MAXtv package Pickbox, which contains more than 70 hit series and 300 movies and covers the majority of Hollywood productions.

Satellite TV, which is an extension of the IPTV service, continues to grow with continued improvements in the offer offering more value and is expected to contribute significantly to the overall success of pay TV. In the January – September 2015 period, customers increased by 16.7% compared with the January – September 2014 period. The Group continued promotions offering 50% discount on the Basic or Basic Extra package monthly fee for the first nine months or one month of additional packages free of charge (the HBO & Cinemax package and Sport Plus Package) for activations during the period of the promotion.

HT further promoted its convergent and joint mobile/fixed activities with MAXobitelj, which was further enhanced to offer an improved mobile tariff, more mobile Internet and top-class smartphones and tablets.

The broadband retail customer base was 2.3% lower than in the same period last year, reaching 603,000. The decline was seen in both segments, both business (down 4.2%) and residential (down 1.9%), due to stronger competition and aggressive offers on the market.

At the same time, broadband retail ARPA was 0.2% above the first nine months of 2014. Business broadband retail ARPA increased by 3.4% due to customers taking bundles and higher speeds. The new, redesigned business MAX2 and MAX3 packages were launched in order to make broadband more attractive for the business customer.

Residential broadband retail ARPA was slightly below the January – September 2014 period at HRK 124. To mitigate the decline, HT has continued to promote its MAX2/MAX3 and Ultra MAX packages on FTTH, with a range of options included in price and smartphone and tablet offers such as the Samsung Galaxy Ace 4 and Samsung Galaxy Tab4 10.1 LTE. These packages are based on FTTH technology, which enables 10 times higher speeds than standard ADSL.

Under its Integrated Network Strategy, HT is continuing to invest in network infrastructure and plans to expand its fibre optic internet zones, to maintain its position as the largest fixed broadband and TV operator in Croatia.

Data

The number of data lines was 4.3% higher compared to the January – September 2014 period. Traditional data lines are decreasing as T-HT continues to promote migration to IP based products.

Wholesale

At the end of September 2015, the Group had 159,000 active ULL lines, down 6.8% from the previous year. The number of ULL lines has been decreasing due to a higher focus by alternative operators on

broadband services. Broadband wholesale access lines (DSL and naked DSL lines) rose to 95,000, which was 44.9% higher than at the end of September 2014.

The number of WLR lines fell to 108,000 compared to 118,000 at the end of September 2014 as a result of the declining voice market.

As a consequence of the WLR offer, the number of “pure” CPS customers fell to 10,000 at the end of September 2015, down 40.4% against to the same period in 2014.

At the end of September 2015 there were 864,000 ported numbers from HT's fixed network to other fixed networks. This was a 12.7% increase on the ported numbers at the end of September 2014. The growth in ported numbers is largely connected with the growth in NBSA services.

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

Visitor roaming services were a major source of international wholesale revenue. The growth in usage continued in 2015, both from foreign visitors on the HT mobile network, and by HT retail users travelling abroad. Visitors generated 19.7% more voice originating minutes and 57.9% more data traffic than in the same period in 2014. At the same time, on the wholesale cost side, HT's mobile customers generated 19.0% more roaming originated voice traffic overseas and 124.0% more data traffic compared to first nine months of 2014. In May 2015, HT started the implementation of 4G (LTE) roaming services with foreign operators worldwide. At the end of September 2015 it had 32 bilateral 4G roaming interconnections.

The total capacity of data services sold to foreign operators increased by 10.5% and capacity of IP services sold increased by 33.7%, both contributing to wholesale international revenue.

The 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 29.7% over the same period in 2014, while international traffic into the HT fixed network decreased by 19.5%. Due to HAKOM's deregulation of termination prices for international voice traffic originated in non-EU/EEA countries into Croatian fixed and mobile networks as of 1 April 2015, HT - along with other telecoms operators in Croatia - has increased termination rates for such traffic, resulting in a revenue increase in that category.

ICT

Continuous growth in all portfolio segments was driven by T-HT Group's strategic focus on Cloud and Managed Solutions. The strongest growth was seen in customized ICT solutions together with Combis and other ICT Enterprise partners. The Group is focusing on market education and customer experience management to further strengthen its leading market position.

3. Group financial performance

3.1 Revenue

in HRK million	Q3 2014	Q3 2015	<i>change</i>	Jan-Sep 2014	Jan-Sep 2015	<i>change</i>
Voice revenue	706	607	-14.0%	2,065	1,759	-14.9%
Non voice revenue	719	745	3.6%	2,132	2,091	-1.9%
Other service revenue ¹⁾	179	250	39.9%	491	573	16.7%
Terminal equipment	72	93	29.1%	217	221	1.6%
Miscellaneous ¹⁾	178	190	7.0%	236	547	131.9%
Revenue	1,854	1,885	1.7%	5,141	5,190	0.9%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -47 million) to Other service revenue (HRK +47 million) was made for Jan-Sep 2014

Total consolidated revenue increased by 0.9% to HRK 5,190 million in the first nine months of 2015 from HRK 5,141 million in 2014. The increase was driven by higher miscellaneous revenue (up HRK 311 million), other service revenue (up HRK 82 million) and terminal equipment (up HRK 3 million), but partially offset by a decrease in voice revenue (down HRK 307 million) and non voice revenue (down HRK 41 million).

In January – September 2015, Optima Telekom contributed HRK 225 million to revenue, consisting of HRK 323 million in Optima Telekom third party contributions, presented in total under miscellaneous, and HRK 98 million of inter-company transactions, which decreased mainly due to non voice wholesale revenue. In January – September 2014 Optima Telekom contributed HRK 77 million in revenue, consisting of HRK 113 million of Optima Telekom third party revenue and HRK 36 million of inter-company transactions.

Excluding Optima Telekom, the revenue decline slowed to 2.0% in the January - September 2015 period compared with 3.6% in 2014. This was due in large part to a slowdown in the decline in wholesale revenue, which was driven by a decrease in international prices mostly due to EU regulation as of 1 July 2013 which resulted in significant drop in the first nine months of 2014 against the same period in 2013.

The contribution of subsidiaries to Group revenue in the first nine months of 2015 was as follows: Iskon - HRK 285 million (Jan-Sept 2014: HRK 276 million) and for Combis - HRK 367 million (Jan - Sept 2014: HRK 299 million).

Voice revenue

Voice revenue declined by HRK 307 million, or 14.9%, in comparison to the first nine months of 2014, driven by mobile (down HRK 167 million or 17.0%) and fixed voice revenue (down HRK 140 million or 12.9%).

The fall in mobile came from both residential (down HRK 116 million or 17.5%) and the business segment (down HRK 51 million or 16.0%).

The lower average price of usage due to the saturated mobile market as well as EU roaming regulation contributed to the revenue decrease. A slight decrease in the number of customers (down 0.4%) driven by residential (down 0.9%) also contributed to the revenue decline.

The fall in mobile was the result of an MTC revenue decline, a fall in prepaid and postpaid retail revenue and lower visitors revenue.

MTC revenue fell by HRK 64 million or 44.7% as a result of price decreases from January 2015 in national mobile to mobile traffic (Q3 2015: HRK 0.063 vs Q3 2014: HRK 0.1282). International termination prices decreased from January 2015 at the level of national termination (Q3 2015: HRK 0.063 vs Q3 2014: HRK 0.32 vs Q2 2014: HRK 0.45), but from April 2015 deregulation of international termination prices from non EU countries was introduced and consequently increased international termination prices.

A prepaid retail revenue decrease of HRK 43 million or 15.6% was driven by residential and caused by a lower customer base, down 2.6%, and lower ARPU. The customer base fell due to strong competition and the overall decline in the prepaid market, while lower voice ARPU resulted from a stronger focus on prepaid data packages, providing affordable data traffic for prepaid customers and consequently driving greater substitution of voice services by data.

Despite an increase in the postpaid customer base (up 2.2%) in both residential (up 2.5%) and business (up 1.6%), total postpaid retail revenue declined by HRK 37 million, or 7.4%, in from both residential (down HRK 23 million or 8.3%) and business (down HRK 14 million or 6.1%). The decline in postpaid retail residential was a result of lower ARPU from the continued substitution of traditional voice services with data. This trend was accelerated by the introduction of new postpaid tariffs focused on data, with bundles including 4G and additional services.

The decline in the postpaid retail business was driven by lower ARPU as a result an increase in bundled tariffs.

Visitors revenue declined by due to lower prices (a further price drop from July 2014 due to the implementation of EU regulation), although voice traffic increased. Deregulation of international termination prices from non EU countries positively impacted visitor revenue.

In January – September 2015, fixed retail voice declined by HRK 118 million, or 12.1%. The decline comprised HRK 75 million or 10.6% from residential and HRK 43 million or 16.1% from business. The decline was the result of a drop in retail mainlines drop of 6.7%, the ongoing trend of fixed to mobile substitution due to mobile offers and a tough regulatory environment. Consequently, number of minutes dropped by 16.4% and ARPA voice per access declined by 6.9%.

The fixed wholesale voice decline (down HRK 22 million or 20.2%) was mainly driven by lower fixed national prices (Q3 2015 HRK 0.005 vs Q3 2014 HRK 0.024), and a decline in international fixed and mobile (Q3 2015 HRK 0.063 vs Q3 2014: HRK 0.32) interconnection prices from January 2015. Deregulation of international termination prices from non EU countries from April 2015 positively impacted fixed wholesale revenue.

Non voice revenue

Non voice revenue decreased by HRK 41 million or 1.9% in January – September 2015 in comparison to the same period in 2014. The fall resulted from lower fixed wholesale revenue, SMS revenue, other non voice revenue, ADSL, VPN and traditional data. This decline was partially offset by increase of mobile data revenue.

The decline in wholesale fixed non voice revenue was mainly the result of inter-company transactions related to Optima Telekom, partially offset by higher infrastructure revenue.

Other causes of the non voice revenue decline were lower fixed internet access, dial up and installation revenues.

Lower ADSL revenue was result of a 2.3% fall in the broadband customer base.

TV revenue was broadly flat to January – September 2014 despite a 2.1% lower TV customer base as a consequence of TV market saturation, with a number of service providers and the overall lower spending power of households, which are consequently switching to free to air DVB-T channels. TV ARPU was 1.1% higher, driven by new and exclusive content such as Arena Sport 5 (Formula 1 new season, auto-moto events) and HBO premium (incl. HBO GO streaming service).

Mobile data growth was the result of the continued trend in the substitution of traditional voice and SMS services for data, a higher volume of data traffic included in tariff bundles and an increasing number of customers with smartphones.

The newly introduced “Najbolje” tariffs contributed to higher data revenue, with the focus on 4G network services which are included in tariffs.

Other service revenue

An increase in other service revenue of HRK 82 million or 16.7%, in comparison to the first nine months of 2014 was mainly driven by higher ICT revenue. The rising ICT revenue trend was mainly driven by higher Combis revenue as a result of higher than expected revenue from IT infrastructure and IP communication contracts. HT Inc. made a positive contribution due to revenue growth in the standard ICT portfolio (Cloud services) and from customized solutions (managed services, private cloud and hardware reselling).

Terminal equipment

Terminal equipment revenue increased by HRK 3 million or 1.6% over the first nine months of 2014. This was a result of an increase in business revenue (up HRK 16 million or 27.8%) due to shift in the handset mix in favour of more valuable phones. This was partially offset by lower revenue from the residential segment (down HRK 13 million or 7.8%) due to lower prices of handsets and a greater proportion of customers on lower value tariffs.

Miscellaneous

An increase in miscellaneous by HRK 311 million or 131.9% over the first nine months of 2014, was mainly driven by higher Optima revenue in amount of HRK 210 million. This is because in 2015 Optima Telekom had been consolidated for nine months and therefore contributed HRK 323 million to miscellaneous revenue, while consolidation in 2014 was from July and the contribution was HRK 113 million.

The remainder of the increase – HRK 101 million – was largely due to higher fees from 1 July 2014, with the charge passed on to mobile customers as a result of the new fee enforced by the government, higher revenue from energy business (HRK 29 million) due to an increased customer base and higher mobile (up HRK 5 million) mainly due to higher non recurring fees and revenue for promotional activities from a European brand campaign.

Other operating income

Other operating income decreased by HRK 22 million or 26.2% compared to the first nine months of 2014 mainly as a result of lower income from penalties and fees related to a court decision in the collection process, but partially offset by higher revenue from AXE selling (following PSTN migration) and copper cable sales.

3.2 Operating expenses

Total consolidated operating expenses decreased by HRK 32 million, or 1.0%, to HRK 3,260 million in the January – September 2015 period.

This decrease was driven by lower employee benefits expenses (down HRK 140 million) and the write down of assets (down HRK 9 million), partially offset by higher other expenses (up HRK 81 million), material expenses (up HRK 23 million) and lower work performed by Group and capitalized (HRK 13 million).

Excluding redundancy costs effect of decrease of HRK 28 million (Jan-Sept 2015: HRK 87 million vs Jan-Sept 2014: HRK 115 million) and a higher contribution by Optima Telekom excluding exceptional items of HRK 93 million (Jan-Sept 2015: HRK 152 million vs Jan-Sept 2014: HRK 56 million), operating expenses decreased by HRK 97 million or 3.1% to HRK 3,024 million in the first nine months of 2015.

3.2.1 Material expenses

Material expenses increased to HRK 1,462 million in the first nine months of 2015 from HRK 1,439 million in January – September 2014 as a result of higher merchandise, material and energy expenses (up HRK 67 million or 7.9%) but partially offset by lower services expenses (down HRK 44 million or 7.4%).

The increase in merchandise costs (up HRK 45 million) was mainly driven by higher ICT, while mobile merchandise costs and fixed were lower compared to the first nine months of 2014.

The ICT merchandise increase was driven by higher revenue in IT infrastructure, IP communication and growing services revenue.

The mobile merchandise cost decrease was primarily driven by the residential segment because of a higher share of customers with lower value tariffs, taking cheaper handsets. Mobile merchandise costs also decreased in the business segment due to a lower number of both acquired and retained customers. Consequently the SAC per gross add in total decreased by 32.6% from HRK 131 to HRK 88.

A decrease in the fixed segment, driven by residential was due to higher costs in 2014 as a result of the spill-over of the cost of devices from the Christmas campaign in January 2014. This was partially offset by higher business due to retention activities.

An increase in energy sales costs and arrangement sales costs was primarily a result of a higher number of customers and was in line with revenue trends.

A decrease in material and energy costs resulted largely from the outsourcing of HT's technology unit for construction to Ericsson Nikola Tesla in Q3 2014 and savings made by the closure of exchanges in PSTN migration in Q4 2014.

A decrease in services expenses mainly came from lower telecommunication costs and copyright fees, partially offset by higher online costs.

Domestic telecommunication costs declined (down HRK 59 million) mainly due to lower fixed (FTR) and mobile (MTR) unitary termination prices from January 2015 as well as lower fixed traffic, which was down 16.4%. The total decline comprised HRK 42 million from residential and HRK 32 million from the business segment, partially offset by higher costs from the Optima consolidated segment, which were HRK 15 million higher.

An increase in international telecommunication costs (up HRK 32 million) primarily came from the Optima consolidated segment in amount of HRK 34 million, partially offset by lower costs from business segment (down HRK 2 million).

Lower copyright fees were caused by a higher share of capitalized content rights contracts and a lower number of TV customers, which were 2.1% lower.

An increase in online costs (up HRK 3 million) was mainly related to the increase in the ICT standard portfolio in line with revenue growth.

Excluding the Optima Telekom contribution of HRK 52 million, material expenses decreased by HRK 28 million over the January – September 2014 period.

3.2.2 Employee benefits expenses

Total employee benefits expenses decreased by HRK 140 million or 15.3% to HRK 774 million in the January – September 2015 period.

Excluding redundancy costs effect of decrease in amount of HRK 28 million (Jan-Sept 2015: HRK 87 million vs Jan-Sept 2014: HRK 115 million) and the higher Optima Telekom contribution excluding exceptional items of HRK 24 million, employee benefits expenses decreased by HRK 137 million. This was mainly due to lower costs for wages and bonuses because of lower number of FTEs and reduced rights following the new Collective agreement valid from 1 July 2014.

The number of FTEs decreased from 5,174 in the January – September 2014 period to 4,750 in 2015, mainly due to the transfer of 631 FTEs from HT's technology unit for construction and maintenance to Ericsson Nikola Tesla from 1 September 2014. In addition, the decrease in the number of FTEs was a result of the Headcount Restructuring program and reorganization. This impact was partially offset by new employments arising from company transformation initiatives. Optima Telekom contributed 355 FTEs.

3.2.3 Other expenses

Other expenses increased by HRK 81 million or 8.6% to HRK 1,021 million in the first nine months of 2015 primarily due to the impact of higher licences (up HRK 111 million), maintenance (up HRK 15 million) and external employment (up HRK 8 million). This increase was partially offset by lower consultancy costs, ex-patriate costs, travel expenses, postal charges and provisions.

An increase in licences was mostly driven by the new block of spectrum and the higher governmental spectrum fee that was introduced on 23 May 2014.

An increase in maintenance was the result of the outsourcing of HT's technology unit for construction to Ericsson Nikola Tesla in Q3 2014 partially offset by lower costs from SLA NT consumption after the conclusion of negotiation with vendors. In addition, higher maintenance costs from Optima Telekom also contributed to the cost increase.

An increase in external employment mainly came from the additional engagement of agency workforce for call center work and lower IVR usage. Optima Telekom also contributed to the increase in costs (HRK 2 million).

Travel costs decreased as result of the outsourcing of HT's technology unit for construction to Ericsson Nikola Tesla in Q3 2014 and a higher share of business trips done through E-Tours.

Postal charges decreased due to dunning letter optimization and a lower number of subscribers.

Provision costs were lower due to the reversal of previously booked costs for legal cases.

In comparison to the first nine months of 2014, excluding the higher Optima Telekom contribution of HRK 17 million, other costs increased by HRK 64 million mainly due to an increase in the government's spectrum fee.

Within the Horizont program, the indirect opex savings project (T-Rex) was finalized in June, with a number of reduction measures identified and some implemented and already positively impacting expenses in the first nine months of 2015.

3.3 Write down of assets

Asset write downs decreased by HRK 9 million or 14.0% to HRK 57 million in the January – September 2015 period. This decrease was mainly driven by the business segment as a result of value adjusted receivables in 2014 from domestic telecommunication operators coming from the pre-bankruptcy settlement. This was partially offset by an increase in residential segment mainly in mobile as a result of a greater volume intensity of legal claims.

3.4 Depreciation and amortization

Depreciation and amortization were HRK 62 million or 6.1% higher than the first nine months of 2014. The Optima Telekom consolidation impact rose to HRK 59 million.

3.5 HT Group profitability

in HRK million	Q3 2014	Q3 2015	<i>change</i>	Jan-Sep 2014	Jan-Sep 2015	<i>change</i>
Revenue	1,854	1,885	1.7%	5,141	5,190	0.9%
EBITDA before exceptional items	769	773	0.5%	2,049	2,080	1.5%
Exceptional items ¹⁾	25	7	-73.3%	115	87	-23.9%
EBITDA after exceptional items	744	766	3.0%	1,934	1,992	3.0%
EBIT (Operating profit)	391	401	2.5%	922	918	-0.4%
Net profit	315	324	2.9%	717	730	1.9%
EBITDA margin before exceptional items	41.5%	41.0%	-0.5 p.p.	39.9%	40.1%	0.2 p.p.
EBITDA margin after exceptional items	40.1%	40.6%	0.5 p.p.	37.6%	38.4%	0.8 p.p.
EBIT margin	21.1%	21.3%	0.2 p.p.	17.9%	17.7%	-0.2 p.p.

Net profit margin	17.0%	17.2%	0.2 p.p.	13.9%	14.1%	0.1 p.p.
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1) Exceptional items refer to redundancy costs

EBITDA before exceptional items increased by HRK 31 million or 1.5% to HRK 2,080 million in January – September 2015 mainly as a result of higher revenue (up HRK 49 million or 0.9%) and lower operating expenses excluding exceptional items (down HRK 5 million or 0.1%), partially offset by lower other operating income (down HRK 22 million or 26.2%).

Since Optima Telekom was consolidated into HT Group results from 1 July 2014, Optima Telekom made a contribution in 2014 of three months in the results for the first nine months of the year, while in 2015 the contribution to Group EBITDA was for the full nine months. The net impact of the Optima Telekom contribution in the January – September 2015 period rose HRK 57 million and consisted of HRK 113 million of the Optima Telekom third party contribution and HRK 56 million in inter-company transactions.

Consolidated net profit after non controlling interests increased by 1.9% to HRK 730 million in January – September 2015 from HRK 717 million in the first nine months of 2014. This increase was primarily a result of higher EBITDA before exceptional items (up HRK 31 million) additionally supported by lower exceptional items (transformation related redundancy costs fell by HRK 28 million), a rise in non controlling interest (up HRK 11 million) from the Optima Telekom consolidation, and higher net financial income (up HRK 6 million) as well as lower taxation (down HRK 1 million). This increase was offset by higher depreciation and amortization (up HRK 62 million).

The positive contribution of net financial income (up HRK 6 million) was mainly the result of higher financial income (up HRK 18 million) mainly from higher exchange rate gains. This positive contribution was partially offset by higher financial expenses (up HRK 12 million) driven mainly by interest expenses. Optima Telekom also contributed an increase in HRK 11 million in net financial expenses.

Optima Telekom contributed a loss of HRK 3 million to Group net profit in January – September 2015 while in the first nine months of 2014 the loss was HRK 1 million.

3.6 Balance sheet

The total value of assets decreased to HRK 13,399 million at 30 September 2015 from HRK 13,835 million at 31 December 2014. The decrease of HRK 436 million is related mainly to current financial assets (HRK 579 million), receivables (HRK 223 million), prepayments (HRK 152 million) and partially offset with an increase in cash and cash equivalents (HRK 523 million). Non-current assets decreased (HRK 14 million) and there was an increase in inventories (HRK 8 million).

Total issued capital and reserves increased to HRK 11,385 million at 30 September 2015 from HRK 11,235 million at 31 December 2014 due to net profit in the January – September 2015 period of HRK 730 million and a dividend payment in 2015 (HRK 573 million).

Total current liabilities decreased by HRK 470 million to HRK 1,419 million at 30 September 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 HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

Compared to the first nine months of 2014, net cash flow from operating activities increased by 7.8% mainly due to higher EBITDA and positive working capital movements.

Net cash flow from investing activities decreased by 250% mainly as a result of higher financial investment (mainly reverse repo arrangements).

Net cash flow from financing activities increased by 13.1% mainly due to a lower dividend paid in 2015.

3.8 Capital expenditure

in HRK million	Q3 2014	Q3 2015	<i>change</i>	Jan-Sep 2014	Jan-Sep 2015	<i>change</i>
HT Group	235	305	29.8%	727	858	17.9%
Capex / Revenue ratio	12.7%	16.2%	3.5 p.p.	14.1%	16.5%	2.4 p.p.

Capital expenditure realization of HRK 858 million in the January – September 2015 period rose 17.9% or HRK 131 million compared with the same period in 2014.

In 2015, the Group's focus was on the further development of the network infrastructure, increase of broadband access capacity and availability as well as the implementation of IP transformation to secure business continuity and sustain the market position over the long term.

As a prerequisite for the development of next-generation broadband networks, geodetic surveying of Electronic Communications Infrastructure (ECI) routes thus far unsurveyed, and data migration into the central infrastructure database have continued with intensity. Through investment in the existing optical access network, FTTH access coverage for 135,881 households has been achieved. In addition, investment in the copper access network continued, with 89.8% central office locations are equipped with VDSL equipment and six projects for access network modernization were completed with significant access loop shortening.

Mobile broadband deployment continued to increase coverage, capacity, scalability and performance of mobile services. Download throughput for 4G technology was increased to 150 Mbps on LTE1800 coverage and to 115 Mbps on LTE800 coverage area. An independent benchmark initiative in June confirmed HT as the best mobile network in Croatia, with the highest 3G and 4G coverage and best performance for voice and data services (P3 Best in Test certificate). Coverage and access capacity of mobile broadband increased with 24 new sites, 98 new 3G and 322 new 4G

services. In addition, transmission systems for 486 2G services have been migrated to IP technology. At the end of Q3 2015, HT's 4G network reached 59% 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. By the end of September 2015, in total 1,125,969 customers were migrated from obsolete TDM voice technology to IP. The upgrade of the existing TV platform has been completed in order to improve the customer experience and enhance video content security. In the HT Metro Ethernet Network, 18 new 10 Gbps IP routers were installed and the migration of customers has been completed on 10 routers. In order to enable LTE roaming, 38 LTE roaming partner are connected with HT mobile network. To protect HT and business customer's networks from hacker's attacks, an Anti DDoS platform has been implemented.

HT has successfully tested voice over LTE (VoLTE) in a lab environment in cooperation with the DT EU VoXX project. Proof of concept testing also included anchoring calls to IMS and call continuity in the handover between 3G and 4G radio (SRVCC - Single Radio Voice Call Continuity functionality).

IT activities and accomplishments were focused on technology to facilitate the 'digital company' business model and 'on-line' business model transformation (e.g. Social Network Analysis), convergence of the business portfolio and consolidation of information systems and business support. Integration of IT infrastructure with the migration of systems is ongoing, as well as server virtualization and storage consolidation.

In cyber and data security area, the ISO27001 certificate annual surveillance audit was successfully completed and the Group received the DT AG Group Security Certificate for Data Centers in Utrine and Selska.

4. Overview of segment profitability

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

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

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

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

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

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

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 where 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	Q3 2014	Q3 2015	<i>change</i>	Jan-Sep 2014	Jan-Sep 2015	<i>change</i>
Voice revenue	464	398	-14.3%	1,373	1,181	-13.9%
Non voice revenue	450	461	2.4%	1,339	1,339	0.1%
Other service revenue ¹⁾	12	13	10.0%	33	36	7.7%
Terminal equipment	53	70	33.3%	160	147	-7.8%
Miscellaneous ¹⁾	35	44	24.9%	43	121	177.9%
Total Revenue	1,015	987	-2.8%	2,948	2,825	-4.2%
Operating expenses	310	306	-1.5%	922	850	-7.8%
Contribution to EBITDA before EI	705	681	-3.3%	2,025	1,975	-2.5%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -28 million) to Other service revenue (HRK +28 million) was made for Jan-Sep 2014

4.2 Business Segment

in HRK million	Q3 2014	Q3 2015	<i>change</i>	Jan-Sep 2014	Jan-Sep 2015	<i>change</i>
Voice revenue	241	209	-13.6%	693	577	-16.7%
Non voice revenue	268	284	5.7%	794	751	-5.3%
Other service revenue ¹⁾	167	237	42.1%	457	537	17.4%
Terminal equipment	19	23	17.8%	58	74	27.8%
Miscellaneous ¹⁾	29	41	39.5%	79	103	30.3%
Total Revenue	725	793	9.3%	2,080	2,042	-1.8%
Operating expenses	340	393	15.5%	1,011	1,006	-0.5%
Contribution to EBITDA before EI	385	400	3.9%	1,069	1,036	-3.1%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -19 million) to Other service revenue (HRK +19 million) was made for Jan-Sep 2014

4.3 Network and support functions

in HRK million	Q3 2014	Q3 2015	<i>change</i>	Jan-Sep 2014	Jan-Sep 2015	<i>change</i>
Other operating income	16	23	<i>48.0%</i>	85	61	<i>-27.9%</i>
Operating expenses	392	389	<i>-0.7%</i>	1,185	1,160	<i>-2.1%</i>
Contribution to EBITDA before EI	-376	-366	<i>2.8%</i>	-1,100	-1,099	<i>0.1%</i>

4.4. Segment Optima Telekom consolidated*

in HRK million	Q3 2014	Q3 2015	<i>change</i>	Jan-Sep 2014	Jan-Sep 2015	<i>change</i>
Revenue	113	105	<i>-7.1%</i>	113	323	<i>185.1%</i>
Other operating income	0	1	-	0	1	-
Operating expenses	58	49	<i>-16.2%</i>	58	157	<i>168.3%</i>
Contribution to EBITDA before EI	55	57	<i>4.0%</i>	55	168	<i>205.6%</i>

*Note: The consolidation of Optima Telekom financial figures started 1 July 2014. The Optima Telekom contribution in the first nine months of 2014 includes just three months results, while in 2015 it includes the full nine months. The Optima consolidated segment does not include full the Optima Telekom consolidation impact since internal transactions in HT Inc and Iskon are included in the business and residential segments. Including internal transactions, Optima Telekom's net contribution to HT Group revenue for the first nine months of 2015 amounts HRK 225 million while the first nine months of 2014 it was HRK 77 million. The EBITDA contribution for the first nine months of 2015 was HRK 78 million while for 2014 it was HRK 21 million.

5. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue decreased by HRK 171 million to HRK 4,388 million in the first nine months of 2015 from HRK 4,559 million in the same period in 2014. The decrease was driven by lower voice (down HRK 277 million) and non voice revenue (down HRK 8 million) mainly related to the decline in SMS, ADSL and other non voice fixed revenue, and partially offset by higher mobile data revenue. This decline was partially offset by an increase in miscellaneous revenue (up HRK 102 million) resulting from the new fees charged to mobile customers enforced by the Government and from the energy business, as well as an increase in other service revenue (up HRK 8 million) driven by ICT and terminal equipment (up HRK 4 million).

EBITDA before exceptional items

EBITDA before exceptional items decreased by HRK 58 million to HRK 1,917 million in the first nine months of 2015 from HRK 1,975 million in January – September 2014, mainly as a result of lower revenue (down HRK 171 million) and lower other operating income (down HRK 22 million) and partially offset by lower operating expenses (down HRK 135 million).

HT Inc. operating expenses before exceptional items decreased by HRK 135 million to HRK 2,528 million in January – September 2015 from HRK 2,663 million in the first nine months of 2014.

This decrease resulted from lower employee benefits expenses (down HRK 137 million), material expenses (down HRK 81 million), and write down of assets (down HRK 12 million), and was partially offset by an increase in other expenses (up HRK 71 million) primarily due to the negative impact of higher licences and maintenance costs, partially offset by lower consultancy cost, and lower work performed by the company and capitalized (down HRK 24 million).

Excluding redundancy costs (Jan-Sept 2015: HRK 83 million vs Jan-Sept 2014: HRK 115 million), employee benefits expenses decreased by HRK 137 million due to a lower number of FTEs and reduced rights under the Collective agreement.

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

Net profit after non controlling interests

Net profit after non controlling interests decreased by HRK 5 million to HRK 698 million in the January – September 2015 period from HRK 703 million in the first nine months of 2014. This decrease was primarily a result of the decrease in EBITDA before exceptional items (down HRK 58 million) and partially offset by lower exceptional items (transformation related redundancy costs fell HRK 32

million), higher net financial income (down HRK 16 million), lower taxation (down HRK 3 million) and lower depreciation and amortization (down HRK 2 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 for 2014 at -0.4% and forecast 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)	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Voice revenue	706	607	-14.0%	2,065	1,759	-14.9%
Non voice revenue	719	745	3.6%	2,132	2,091	-1.9%
Other service revenue ¹⁾	179	250	39.9%	491	573	16.7%
Terminal equipment	72	93	29.1%	217	221	1.6%
Miscellaneous ¹⁾	178	190	7.0%	236	547	131.9%
Revenue ²⁾	1,854	1,885	1.7%	5,141	5,190	0.9%
Other operating income	16	24	52.5%	85	63	-26.2%
Total operating revenue	1,870	1,910	2.1%	5,226	5,252	0.5%
Operating expenses	1,126	1,143	1.5%	3,292	3,260	-1.0%
Material expenses	506	575	13.6%	1,439	1,462	1.6%
Merchandise, material and energy expenses	287	386	34.5%	849	916	7.9%
Services expenses	219	189	-13.8%	590	546	-7.4%
Employee benefits expenses	291	236	-18.7%	914	774	-15.3%
Other expenses	337	335	-0.5%	940	1,021	8.6%
Work undertaken by the Group and capitalised	-29	-20	29.9%	-67	-54	19.2%
Write down of assets	21	17	-18.3%	67	57	-14.0%
EBITDA	744	766	3.0%	1,934	1,992	3.0%
Depreciation and amortization	352	365	3.7%	1,012	1,075	6.1%
EBIT	391	401	2.5%	922	918	-0.4%
Financial income	8	18	116.4%	23	41	77.1%
Income/loss from investment in joint ventures	8	4	-43.5%	12	11	-3.3%
Financial expenses	16	20	28.9%	64	76	18.3%
Profit before taxes	392	403	2.9%	892	894	0.2%
Taxation	79	80	0.9%	178	177	-0.5%
Net profit	313	324	3.4%	714	717	0.4%
Non controlling interest	-2	-1	69.5%	-2	-13	-478.4%
Net profit after non controlling interest	315	324	2.9%	717	730	1.9%
Exceptional items ²⁾	25	7	-73.3%	115	87	-23.9%
EBITDA before exceptional items	769	773	0.5%	2,049	2,080	1.5%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -47 million) to Other service revenue (HRK +47 million) was made for Jan-Sep 2014

2) Related to redundancy restructuring costs

8.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2014	At 30 Sep 2015	Change
Intangible assets	1,716	1,545	-10.0%
Property, plant and equipment	5,577	5,530	-0.8%
Non-current financial assets	735	964	31.2%
Receivables	121	102	-15.3%
Deferred tax asset	51	45	-11.8%
Total non-current assets	8,200	8,186	-0.2%
Inventories	115	124	7.3%
Receivables	1,525	1,302	-14.6%
Current financial assets	1,539	960	-37.6%
Cash and cash equivalents	2,192	2,715	23.9%
Prepayments and accrued income	264	112	-57.7%
Total current assets	5,635	5,212	-7.5%
TOTAL ASSETS	13,835	13,399	-3.2%
Subscribed share capital	8,883	9,823	10.6%
Reserves	409	444	8.6%
Revaluation reserves	2	5	146.7%
Retained earnings	673	268	-60.2%
Net profit for the period	1,142	730	-36.1%
Non controlling interest	125	114	-8.5%
Total issued capital and reserves	11,235	11,385	1.3%
Provisions	71	69	-3.1%
Non-current liabilities	590	480	-18.6%
Deferred tax liability	50	46	-8.2%
Total non-current liabilities	711	595	-16.3%
Current liabilities	1,742	1,306	-25.0%
Deferred income	111	105	-5.5%
Provisions for redundancy	35	8	-77.6%
Total current liabilities	1,889	1,419	-24.9%
Total liabilities	2,600	2,014	-22.5%
TOTAL EQUITY AND LIABILITIES	13,835	13,399	-3.2%

8.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Jan-Sep 2014	Jan-Sep 2015	change
Profit before tax	892	894	0.2%
Depreciation and amortization	1,012	1,075	6.1%
Increase / (decrease) of current liabilities	-74	-99	-33.8%
(Increase) / decrease of current receivables	119	71	-40.5%
(Increase) / decrease of inventories	-27	-8	69.2%
Other cash flow increases/ decreases	-352	-239	32.1%
Net cash inflow/outflow from operating activities	1,571	1,693	7.8%
Proceeds from sale of non-current assets	3	9	221.2%
Proceeds from sale of non-current financial assets	2	1	-41.7%
Interest received	15	15	4.7%
Other cash inflows from investing activities	1,444	1,872	29.7%
Total increase of cash flow from investing activities	1,463	1,898	29.7%
Purchase of non-current assets	-760	-833	-9.6%
Purchase of non-current financial assets	-76	-305	-299.0%
Other cash outflows from investing activities	-338	-1,193	-253.4%
Total decrease of cash flow from investing activities	-1,174	-2,331	-98.5%
Net cash inflow/outflow from investing activities	289	-433	-250.0%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-2	-23	-1244.5%
Dividends paid	-736	-573	22.1%
Repayment of finance lease	-3	-3	-6.1%
Other cash outflows from financing activities	-117	-146	-25.1%
Total decrease in cash flow from financing activities	-857	-745	13.1%
Net cash inflow/outflow from financing activities	-857	-745	13.1%
Exchange gains/losses on cash and cash equivalents	3	8	167.7%
Cash and cash equivalents at the beginning of period	2,039	2,192	7.5%
Net cash (outflow) / inflow	1,005	523	-48.0%
Cash and cash equivalents at the end of period	3,045	2,715	-10.8%

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	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Segment Result (Contribution to EBITDA)						
Residential Segment	705	681	-3.3%	2,025	1,975	-2.5%
Business Segment	385	400	3.9%	1,069	1,036	-3.1%
Network and Support Functions	-376	-366	2.8%	-1,100	-1,099	0.1%
Segment Optima consolidated	55	57	4.0%	55	168	205.6%
Total Contribution to EBITDA before SI of the Segments	769	773	0.5%	2,049	2,080	1.5%
Special influences	25	7	-73.3%	115	87	-23.9%
Total EBITDA	744	766	3.0%	1,934	1,992	3.0%

8.5 Group's revenue breakdown under former reporting structure

in HRK million	Q3 2014	Q3 2015	change	Jan-Sep 2014	Jan-Sep 2015	change
Mobile	781	782	0.1%	2,106	2,049	-2.7%
Fixed Telephony	301	261	-13.2%	926	802	-13.3%
Wholesale	83	89	7.0%	317	250	-21.0%
IP Revenue	395	388	-1.8%	1,186	1,165	-1.8%
Data	20	21	5.1%	63	62	-1.2%
ICT	147	216	47.5%	397	474	19.6%
Miscellaneous	122	112	-7.9%	138	345	150.0%
Energy	3	13	345.8%	5	34	628.2%
Other non telco services	2	4	54.3%	4	8	87.3%
Revenue	1,854	1,885	1.7%	5,141	5,190	0.9%

8.6 Notes to the condensed consolidated financial statements for the nine months ended on 30 September 2015

Basis of preparation

The condensed consolidated financial statements as of 30 September 2015 and for the nine months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

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

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

Dividends

On 29 April 2015 General Assembly of Hrvatski Telekom d.d. reached a decision on dividend distribution that 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 HRK 7.00 per share.

Dividend was paid on 25 May 2015.

A part of the net profit for 2014 amounting to HRK 940,000,000.00 is used to increase the share capital and part of net profit for 2014 in amount of HRK 34,700,000 is used to increase legal reserves.

Take-over of Optima Telekom

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

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

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

Segment information

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

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

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

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

The Optima Telekom consolidated unit includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount on the Miscellaneous revenue line.

According to the "Chinese wall" introduced by the regulator, access to Optima Telekom figures is limited.

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

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

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

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

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

Period ended 30 September 2014	Residential HRK million	Business HRK million	Network & Support functions HRK million	Optima Telekom consolidated HRK million	Total HRK million
Segment revenue	2,948	2,080	-	113	5,141
<i>Service revenues, restated</i>	<i>2,717</i>	<i>1,924</i>	-	-	<i>4,641</i>
<i>Terminal equipment, restated</i>	<i>160</i>	<i>58</i>	-	-	<i>218</i>

<i>Other, restated</i>	71	98	-	113	282
Usage related direct costs	(202)	(184)	-	(23)	(409)
Income and losses on accounts receivable	(10)	(53)	-	-	(63)
Contribution margin I, restated	2,736	1,843	-	90	4,669
Non-usage related direct costs	(408)	(479)	-	(2)	(889)
Segment result, restated	2,328	1,364	-	88	3,780
Other income, restated	-	-	85	-	85
Other operating expenses	(332)	(317)	(1,249)	(33)	(1,931)
Depreciation, amortisation and impairment of non-current assets	-	-	(1,012)	-	(1,012)
Operating profit, restated	1,996	1,047	(2,176)	55	922

	Residential HRK million	Business HRK million	Network & Support functions HRK million	Optima Telekom consolidated HRK million	Total HRK million
1 July 2014 to 30 September 2014					
Segment revenue	1,015	725	-	113	1,853
<i>Service revenues, restated</i>	900	657	-	-	1,557
<i>Terminal equipment, restated</i>	53	20	-	-	73
<i>Other, restated</i>	62	48	-	113	223
Usage related direct costs	(68)	(68)	-	(23)	(159)
Income and losses on accounts receivable	(8)	(12)	-	-	(20)
Contribution margin I, restated	939	645	-	90	1,674
Non-usage related direct costs	(130)	(171)	-	(2)	(303)
Segment result, restated	809	474	-	88	1,371
Other income, restated	-	-	16	-	16
Other operating expenses	(112)	(91)	(407)	(33)	(643)
Depreciation, amortisation and impairment of non-current assets	-	-	(352)	-	(352)
Operating profit, restated	697	383	(743)	55	392

	Residential HRK million	Business HRK million	Network & Support functions HRK million	Optima Telekom consolidated HRK million	Total HRK million
Period ended 30 September 2015					
Segment revenue	2,825	2,042	-	323	5,190
<i>Service revenues</i>	2,557	1,865	-	-	4,422
<i>Terminal equipment</i>	147	74	-	-	221
<i>Other</i>	121	103	-	323	547
Usage related direct costs	(161)	(150)	-	(71)	(382)
Income and losses on accounts receivable	(34)	(18)	-	(2)	(54)
Contribution margin I	2,630	1,874	-	250	4,754
Non-usage related direct costs	(370)	(570)	-	(4)	(944)

Segment result,	2,260	1,304	-	246	3,810
Other income	-	-	61	-	61
Other operating expenses	(305)	(278)	(1,213)	(82)	(1,878)
Depreciation, amortisation and impairment of non-current assets	-	-	(1,075)	-	(1,075)
Operating profit	1,955	1,026	(2,227)	164	918

1 July 2015 to 30 September 2015	Residential HRK million	Business HRK million	Network & Support functions HRK million	Optima Telekom consolidated HRK million	Total HRK million
Segment revenue	987	793	-	105	1,885
<i>Service revenues</i>	873	729	-	-	1,602
<i>Terminal equipment</i>	70	23	-	-	93
<i>Other</i>	44	41	-	105	190
Usage related direct costs	(56)	(60)	-	(23)	(139)
Income and losses on accounts receivable	(12)	(6)	-	(1)	(17)
Contribution margin I	919	727	-	83	1,729
Non-usage related direct costs	(145)	(243)	-	50	(338)
Segment result,	774	484	-	133	1,391
Other income	-	-	23	-	23
Other operating expenses	(95)	(82)	(394)	(76)	(647)
Depreciation, amortisation and impairment of non-current assets	-	-	(366)	-	(366)
Operating profit	679	402	(737)	57	401

Relations with the governing company and its affiliated companies

In the first nine 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 nine 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 nine months of 2015.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first nine 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 nine months of 2015 the Group generated total revenue from related companies from international traffic to the amount of HRK 58 million (the first nine months of 2014: HRK 69 million), while total costs of international traffic amounted to HRK 60 million (the first nine months of 2014: HRK 62 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 10 million in the first nine months of 2015 (the first nine months of 2014: HRK 19 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 nine months of 2015 the Company paid a total amount of HRK 0.6 million (the first nine months of 2014: HRK 0.4 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first nine months of 2015 the total compensation paid to key management personnel of the Group amounted to HRK 31 million (first nine months of 2014: HRK 34 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 nine 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. Thorsten Albers, Member of the Management Board and Chief Technical and Information Officer (CTIO)

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

Zagreb, 29 October 2015

10. Presentation of information

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

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

Therefore, references to “Business” are to business operations performed within the Company’s Business Segment.

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

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

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

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

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

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

References 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