



Zagreb – 24 February 2016

Hrvatski Telekom Results for the year ended 31 December 2015

Hrvatski Telekom stabilised revenue and operating income and increased investments by 35 per cent

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

In 2015, Hrvatski Telekom has generated revenue amounting to HRK 6.92 billion, which is by 0.2% above the results of 2014, when a decline of 1.9 % was recorded. HT maintained its leading position in all segments of the telecommunications market; revenue stabilisation was impacted by the growth in ICT segment and electricity business.

EBITDA before exceptional items was also stable as compared to 2014, amounting to HRK 2.78 billion, along with a strong EBITDA margin at 40.2 per cent.

The net profit in 2015 amounts to HRK 925 million.

Cash flow from operations in 2015 amounts to HRK 2.37 billion and was up 3.1%.

Value of investment 35 per cent above last year

Last year, Hrvatski Telekom substantially increased the value of investment. A total of HRK 1.46 billion, or 34.8 per cent more than in the previous year, has been invested in three key areas – development of the mobile and fixed line infrastructure, increased broadband access capacity, and completion of the IP migration process.

HT is the third telecommunications operator in the European Union to have completed the migration of all its customers and services to an ALL-IP environment; the project value over the last five years exceeds HRK 400 million.

4G network indoor coverage increased by 20 per cent and reached 65 per cent of the population, as compared to 45 per cent in 2014 (population outdoor coverage – 2015: 93% vs. 2014: 73%). In urban areas, speeds were increased to up to 225 Mbit/s, which is three times higher than last year. Moreover, Hrvatski Telekom received the P3 “Best in Test” Certificate, an internationally accepted proof of the highest mobile network quality.

In the fixed network, fibre optic access was enabled for 171 thousand households. Broadband access at bitrates of a minimum of 30 Mbp/s was made available to 50% of households, in comparison to

34% of households in 2014. Also, Internet speeds of 400 Mbps were tested, employing G.fast technology, which will enable a large step forward in further development of services.

Moreover, HT is actively participating in the Deutsche Telekom's PAN IP programme used for development of a unique service production platform. The first Pan-European service, Cloud VPN, was developed by HT's experts; the service was launched concurrently in three countries: Croatia, Hungary, and Slovakia.

More than half of the revenue for dividend distribution

For the financial year 2015, the Management Board and the Supervisory Board have made a proposal to the General Assembly that dividend be paid out in the amount of HRK 6 per share. The total amount is HRK 491.3 million, representing 55% of the net profit of HT d.d., an increase of 4.3 percentage points over the last year's rate.

As previously announced, HT will, at the beginning of the year, announce a minimum target dividend for each year, within the Dividend Policy range. For the financial year 2016, the Management Board currently expects the payment of dividends to a minimum amount of HRK 6.00 per share.

In 2016, we will continue with investments and further development

Commenting on the business results of 2015 and plans for 2016, **Davor Tomašković**, President of the Management Board of Hrvatski Telekom, said: *"We look back at a very successful year, in which we stabilised all financial indicators and laid the foundations for further growth and development of our business. Investment in infrastructure development for fast mobile and fixed Internet and completion of the IP migration project has positioned us alongside Europe's top telecommunications operators; once more, we have reaffirmed our position of the absolute technology leader in the Croatian market. Furthermore, we significantly increased customer satisfaction in all areas, from the first line of communication, over network quality, to the final product. In 2016, we will continue to invest in infrastructure development and business transformation, and we will focus our technological know-how and expertise on innovation and further improvement of customer experience. This will enable us to continue offering our customers the best quality and fastest service. Also, we will continue eyeing opportunities for potential expansion of HT's operations in Croatia and the region".*

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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
Conference ID

+44 (0) 1452 555 566
52505096

A replay of the call will be available until Tuesday, 1 March 2016 using the following details:

International Dial In
Replay Access Code

+44 (0)1452 550 000
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Full audited accounts for HT Group and HT d.d., other prescribed documentation as well as a presentation covering results for the 2015 financial year, can be downloaded from the HT web site. (www.t.ht.hr/eng/investors/) and are fully available in the Official Register of Prescribed Information (SRPI).

1. Review

1.1 Introduction

HT Group maintained its leading position in the Croatian telecommunications market across all business segments in 2015 in spite of competitive pressure. At the same time, the Group reversed long-term negative trends in revenue and profitability, reporting year-on-year revenue growth and EBITDA stabilization.

1.2 Market overview

Fixed-line market

Market consolidation and fixed-to-mobile voice line and traffic substitution continued in 2015. According to the Agency's Q3 2015 report¹, the number of fixed line minutes declined by 13.5% yoy in first nine months of 2015.

Hrvatski Telekom successfully finalized a comprehensive process of IP transformation, modernization of its fixed telecommunications network, in which all its customers' fixed lines were migrated to IP (Internet Protocol) technology.

HT is the third telco in the European Union to have migrated all of its customers and services to All-IP network architecture.

Mobile telecommunications

The Croatian mobile market has been characterised by increasing competition among the three mobile operators and regulatory measures that impact mobile revenue. Competition remains fierce in the Croatian market as all three operators continue to launch new promotions designed to attract new subscribers and retain the loyalty of their current users.

Estimated mobile SIM penetration rate at the end of December 2015 was 113.2%. HT successfully managed to maintain its leading market share in total mobile customers at an estimated 47.0% at the end of December 2015.

Mobile customers are increasingly using their smartphones and tablets for entertainment, work and social interaction. Therefore all three mobile operators, already offering 3G services, are further investing in network upgrades to boost 3G data coverage and to strengthen existing 4G infrastructure.

The market drivers outlined above impacted mobile voice, messaging and data services trends.

¹ Source: Croatian Post and Electronic Communications Agency

Total Croatian mobile market minutes of use (MOU) grew by 1.9% yoy in first nine months of 2015. The number of SMSs sent continued to decrease on an annual basis, by 8.7% in first nine months of 2015² due to the impact of increasing OTT services usage.

Internet

Croatia had 972,335 fixed broadband connections at the end of Q3 2015. The Croatian fixed broadband market continues to grow, rising 3% yoy in Q3 2015⁴.

Demand for HT's fiber optic Ultra MAX packages has enabled HT to maintain its leading position in the broadband market. The FttH-based broadband packages (Fiber to the Home) offer speeds 10 times higher compared to ADSL packages.

The HT Group is focusing strongly 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 603,017 broadband access lines at the end of December 2015.

The Croatian Pay TV market is highly competitive and still growing. The Pay TV market grew by 3% in Q3 2015 reaching 750,275 customers⁴. The leading Pay TV technology in the Croatian Pay TV market is IPTV.

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remained high in Q4 2015 with the major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 105,039 at the end of 2015 (an increase of 44.7 % compared to December 2014). Due to high churn and migration to broadband services the number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing, and this resulted in 158,658 ULL access and 104,285 WLRs at the end of the period.

From April 2015, wholesale prices for international non-EU 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 Adriatics³, the Croatian ICT market is expected to grow by 2.9% in 2015. All segments of the Croatian ICT market are expected to have shown growth in 2015. The strongest

² Source: Croatian Post and Electronic Communications Agency

³ Source: Croatian IT Market 2015–2019 Forecast and 2014 Vendor Shares, IDC Adriatics, June 2015

growth is expected in Packaged Software (5.1%), followed by IT services (3.4%) and Hardware (1.9%).

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

1.3 Economic background

Croatian GDP grew more than expected in Q3/2015 (by 2.8% on a yearly basis) driven by strong growth in foreign demand. Overall in 2015 all major components of GDP recorded annual growth: personal consumption, export of goods/services, investment activities in the public and private sectors and state consumption. The recovery trend that started in 2015 is expected to continue in 2016⁴.

Favourable trends were recorded in the labour market. The registered unemployment rate in November 2015 was 17.7%, which represents a decrease of 1.5 percentage points compared to November 2014⁵.

Net disposable income was higher than in 2014 as a result of tax reform introduced in 2015. Reported average net income for October 2015 amounted to HRK 5,720, which is 4.3% higher in real terms than in October 2014². Average annual inflation rate for the whole of 2015, measured by the Consumer Prices Index (CPI), is expected to be -0.4%.²

1.4 Supervisory Board Decisions

1.4.1 Financial Statements

The Management Board and Supervisory Board of Hrvatski Telekom d.d. have adopted the Annual Financial Statements of the Company and the Consolidated Financial Statements of HT Group, with the auditor's report, for the 2015 financial year.

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

⁴ Source: Bulletin of the Croatian National Bank No. 220, December 2015

⁵ Source: Central Bureau of Statistics

1.4.2 Net profit distribution proposal

It is determined that Hrvatski Telekom d.d. in the business year ending with 31 December 2015 realized net profit in the amount of HRK 893,483,740.25.

The net profit amount stated herein is proposed to be used accordingly:

- A part of net profit in the amount of HRK 491,307,624.00 shall be paid out as dividend to shareholders, in the amount of HRK 6.00 per share.
- A part of net profit in the amount of HRK 47,000,000.00 shall be allocated to legal reserves.
- A part of net profit in the amount of HRK 355,176,116.25 shall be allocated to retained earnings.

The proposed dividend payout amount of HRK 491,307,624.00, or 6.00 HRK per share, is within the range declared as a dividend policy, and is equivalent to 55.00% payout of the Company's distributable profits earned in the preceding year.

The dividend shall be paid out to all shareholders that are registered as shareholders at the Central Depository & Clearing Company (SKDD) on 4 May 2016 (record date). The date on which shares of Hrvatski Telekom d.d. will be traded without a dividend payment right is 3 May 2016 (ex date). The dividend payment claim matures on 16 May 2016 (payment date).

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

In addition, as communicated at the Capital Markets Day in November 2015, HT has committed to announcing a minimum target dividend for each year at the start of that particular year, within the range as set out in our dividend policy e.g. from 50% to 100% of the Company's distributable profits depending on its overall financial position and working capital needs.

To comply with that commitment, HT announces today that it currently expects to pay out a minimum dividend of HRK 6 per share out of 2016 net profit.

1.4.3 Authority to the Management Board of the Company for acquisition of Company shares

Given that the current authorization expires on 4 May 2016, the Supervisory Board has reached following decision, e.g. proposal to the General Assembly:

The Management Board of Hrvatski Telekom d.d. is herewith given the authority to acquire the Company's shares, for the account of the Company, under the following terms and conditions:

The Management Board may acquire the Company's shares in the maximum amount which, including already acquired shares, may not exceed 10% (ten percent) of the share capital of the Company.

In the process of acquiring and managing the Company's shares the Management Board is empowered not to comply with the provisions of Article 211 and Article 308 paragraph 2 and 4 of the Companies Act.

The Management Board of the Company is authorized to act in accordance with Article 352 paragraph 3 item 3 of the Companies Act and withdraw shares without nominal value without the share capital of the Company being decreased, in which case the remaining shares' participation in the share capital would be increased, and the Management Board is authorized to align the information on the number of shares in the Articles of Association of the Company.

The Management Board is empowered to withdraw acquired Company's shares without nominal value and decrease the share capital of the Company.

The maximum price at which the Company's shares might be purchased shall not exceed 10% and respectively shall not be below 10% of the average market price per share realized during the last trading day preceding the purchase.

This authority shall be valid for five years as of the day of the passing of this Decision.

This Decision shall enter into effect as at the day of its passing, and shall be applied within the term of authority given by this Decision.

1.5 Regulatory environment

Deregulation of mobile and fixed termination rates (MTR/FTR) outside EU/EEA

On 30 March 2015, HAKOM passed its final decisions on MTR and FTRs. According to these decisions, national MTR/FTRs remain regulated with prices that were applicable as of 1 January 2015. MTR/FTRs in the case of calls originated from numbers belonging to international operators outside EU/EEA and in the case of calls without a number as well as FTR on national level are excluded from further regulation. Following this decision, deregulated MTR/FTRs were applied as of 1 April, 2015.

Regulation of fixed origination (FOR)

FOR prices decreased on 1 January 2015 (36% decrease) owing to a HAKOM decision made in 2014. On 30 March 2015, HAKOM passed a final decision on 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 apply as of 1 May, 2015 (43% decrease).

Wholesale leased lines markets analyses

On 29 July 2015, HAKOM reached its final decisions on the analysis of:

- wholesale trunk segment of leased lines⁶ which is subject to deregulation and
- wholesale high-quality access provided at a fixed location⁷ which is subject to regulation.

According to HAKOM's decision, HT in substance remains an operator with significant market power on leased line market with the currently applicable regulatory remedies⁸.

Market analysis of wholesale access markets

On 9 July 2015, HAKOM reached its final decisions on the analysis of wholesale local access provided at a fixed location and wholesale central access provided at a fixed location for mass-market products.

According to HAKOM's decision, HT and its subsidiaries, Iskon and Optima Telekom, remain operators with significant market power on the relevant markets with currently applicable remedies⁹. Additionally, the decision introduced new margin squeeze (MSQ) test methodology for HT's retail services.

Deregulation of retail BB/IPTV market

On 9 July, 2015 HAKOM reached its final decision on deregulation of the retail broadband market and market of transferring TV channels applicable to HT and its subsidiaries Iskon and Optima Telekom.

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

- 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)

The decision has enabled HT to be more responsive to the retail market.

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 the 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 telephone network at fixed locations and internet services at the speed of 1Mbit/s as the most important USO services¹⁰.

⁶ In accordance with HAKOM's proposal wholesale trunk segment of leased lines market includes leased lines (Ethernet, xWDM 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.

⁷ All leased lines relations (Ethernet, xWDM and traditional digital (SDH, PDH, (S)HDSL) leased lines relations) other than wholesale trunk segment of leased lines.

⁸ Regulatory obligations of access to and use of special network facilities, non-discrimination, transparency, price control and cost accounting obligation, accounting separation.

⁹ 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.

¹⁰ 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.

Under the same decision, HT is no longer obliged to provide access to the telephony number information service (118xxx service)¹¹.

Determination of monthly fee for ULL

Under the HAKOM decision of 16 December, 2015, HT was given the option to increase the existing ULL price of HRK 43.61 (EUR 5.81) to the price of HRK 57.30 (EUR 7.64) effective as of 1 January 2017. This decision may potentially lead to NBSA price increases and the increase of telecommunications market value.

Shorter deadlines for notification of new retail prices for access services and prices offered in public procurement procedures

On 7 December 2015, HAKOM reached a final decision on:

- shortening the deadline for notification of new retail prices for access services from 45 days to eight days prior to launch of the service,
- shortening the deadline for notification of retail prices of regulated retail services (access, broadband and IPTV services - including bundles containing these services) offered in public procurement procedures from 10 days prior sending the offer to the day the offer is sent.

This has enabled HT to be more responsive to the retail market.

Shorter deadlines for HT's copper network reconstruction

On 23 December 2015, HAKOM reached its final decision on shortening the deadline for prior notification of reconstruction of copper network on certain ULL locations from five years to six months. According to this decision, HT is obliged to offer to alternative operators at the covered ULL locations BSA services for the price of ULL over a period of two years. The decision has enabled the provision of better broadband services and higher speeds to end customers.

All IP migration completed

On 1 December 2015, the Group successfully completed its migration to all IP migration following a three-year initiative, with the support of HAKOM in defining terms and conditions of migration, including IP interconnection. The achievement of All IP confirms HT's leadership position in the Croatian market and has created the preconditions for the development of better and advanced services to customers and meaningful convergence of fixed and mobile services.

¹¹ This service will be provided by another USO provider – Imenik d.o.o.

1.6 Changes in reporting

Optima Telekom

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

Costs related to the electronic communication infrastructure (ECI)

In 2015, the Company voluntary changed its accounting policy with regard to costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way. It determined that ECI contracts meet the criteria for capitalization as intangible assets. The Company believes that recognizing the costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way as intangible assets results in the better presentation of the financial position and provides more relevant information.

The accounting treatment of the costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way varies within the telecommunication industry, but the Company believes the current accounting policy is more appropriate as it is aligned better with industry best practices. The change in accounting policy has been accounted for retrospectively, and the Company restated the comparative amounts for each prior period presented as if the new accounting policy had always been in place.

The effects of the accounting policy change on financial information for 2014 are as follows: decrease of Other expenses (rental) by HRK 6 million, increase of Depreciation and amortization by HRK 4 million, increase of Financial expenses by HRK 2 million, increase of Intangible assets by HRK 16 million, increase of Non-current liabilities by HRK 12 million, increase of Current liabilities by HRK 4 million, increase of Net cash inflow from operating activities by HRK 6 million, decrease of Net cash flow from financing activities by HRK 6 million.

The effects of the accounting policy change on main financial information for 2015 are as follows: EBITDA before exceptional items rose HRK 50 million, an increase in Net profit after NCI of HRK 22 million, an increase in Capex of HRK 93 million.

1.7 Summary of key financial indicators

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Revenue	1,766	1,729	-2.1%	6,908	6,919	0.2%
EBITDA before exceptional items	744	703	-5.5%	2,793	2,783	-0.4%
Exceptional items	37	4	-89.4%	152	91	-39.8%
EBITDA after exceptional items	707	699	-1.1%	2,641	2,691	1.9%
EBIT (Operating profit)	303	281	-7.5%	1,225	1,199	-2.2%
Net profit	426	194	-54.4%	1,142	925	-19.1%
EBITDA margin before exceptional items	42.1%	40.6%	-1.5 p.p.	40.4%	40.2%	-0.2 p.p.
EBITDA margin after exceptional items	40.0%	40.4%	0.4 p.p.	38.2%	38.9%	0.7 p.p.
EBIT margin	17.2%	16.2%	-0.9 p.p.	17.7%	17.3%	-0.4 p.p.
Net profit margin	24.1%	11.2%	-12.9 p.p.	16.5%	13.4%	-3.2 p.p.

in HRK million	At 31 Dec 2014	At 31 Dec 2015	change
Cash and cash equivalents	2,192	3,175	44.8%
Total assets	13,841	14,079	1.7%
Total issued capital and reserves	11,276	11,641	3.2%

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Net cash flow from operating activities	724	673	-7.1%	2,295	2,367	3.1%

RESIDENTIAL SEGMENT

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Revenue	994	952	-4.2%	3,942	3,776	-4.2%
Contribution to EBITDA before EI	662	636	-3.9%	2,687	2,611	-2.8%

BUSINESS SEGMENT

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Revenue	664	676	1.7%	2,745	2,718	-1.0%
Contribution to EBITDA before EI	324	317	-2.2%	1,393	1,353	-2.9%

NETWORK & SUPPORT FUNCTIONS

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Contribution to EBITDA before EI	-310	-307	1.1%	-1,411	-1,406	0.3%

SEGMENT OPTIMA TELEKOM CONSOLIDATED*

in HRK million	Q4	Q4	change	Jan-Dec	Jan-Dec	change
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	2014	2015		2014	2015	
Revenue	108	102	-5.7%	221	425	92.0%
Contribution to EBITDA before EI	68	56	-17.1%	123	224	82.3%

*Consolidation of Optima Telekom financial figures started since 1 July 2014. The Optima Telekom contribution in 2014 includes six months period results, and in 2015 includes results for the whole year. The Optima segment consolidated does not include the full Optima Telekom consolidation effect since the internal transactions on HT Inc and Iskon are included in business and residential segments. Including internal transactions effect, Optima Telekom's net contribution to HT Group revenue for 2015 amounted to HRK 296 million against HRK 149 million in 2014. The Optima Telekom contribution to EBITDA before exceptional items amounts for 2015 amounted to HRK 106 million while for 2014 it was HRK 57 million.

1.8 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Twelve months to 31 Dec 2014	7.63	7.66	5.75	6.30
Twelve months to 31 Dec 2015	7.61	7.63	6.86	6.99

2. Business Review

Key operational data	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Mobile subscribers in 000						
Number of customers	2,252	2,233	-0.9%	2,252	2,233	-0.9%
- Residential	1,777	1,749	-1.6%	1,777	1,749	-1.6%
- Business	475	483	1.7%	475	483	1.7%
Number of postpaid customers	1,099	1,119	1.8%	1,099	1,119	1.8%
Number of prepaid customers	1,153	1,114	-3.4%	1,153	1,114	-3.4%
Minutes of use (MOU) per average customer	188	195	3.6%	188	195	3.8%
- Residential	171	178	4.6%	171	178	4.3%
- Business	257	258	0.3%	254	258	1.4%
Blended ARPU (monthly average for the period in HRK)	79	74	-6.5%	79	75	-5.6%
- Residential	70	65	-7.4%	70	66	-5.6%
- Business	114	108	-5.3%	117	109	-6.8%
Blended non-voice ARPU (monthly average for the period in HRK)	33	36	9.5%	33	36	6.4%
SAC per gross add in HRK	98	121	24.3%	123	96	-22.3%
Churn rate (%)	3.5	3.7	0.2 p.p.	2.9	2.6	-0.2 p.p.

Penetration (%) ¹⁾	114	113	-0.8 p.p.	114	113	-0.8 p.p.
Market share of subscribers (%) ¹⁾	47	47	0.2 p.p.	47	47	0.2 p.p.
Data subscribers (in 000)	1,409	1,496	6.2%	1,409	1,496	6.2%
Smartphone customers (%) ²⁾	41	51	10.6 p.p.	41	51	10.6 p.p.
Smartphones sold (%) ³⁾	73	79	6.0 p.p.	73	79	6.0 p.p.

1) Source: published VIPnet's quarterly report for Q4 2015 and Tele2's quarterly report for Q4 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	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	1,050	968	-7.8%	1,050	968	-7.8%
- Residential	914	850	-6.9%	914	850	-6.9%
- Business	136	118	-13.4%	136	118	-13.4%
Fixed mainlines - wholesale (WLR)	116	104	-9.8%	116	104	-9.8%
- Residential	102	94	-7.8%	102	94	-7.8%
- Business	13	10	-25.3%	13	10	-25.3%
Total Traffic (mill. of minutes) ²⁾	365	325	-10.9%	1,545	1,311	-15.1%
- Residential	305	280	-8.3%	1,268	1,112	-12.3%
- Business	60	45	-24.2%	277	199	-28.1%
ARPA voice per access (monthly average for the period in HRK) ³⁾	92	86	-6.3%	94	88	-6.8%
- Residential	82	77	-6.0%	84	79	-5.8%
- Business	153	146	-4.9%	161	150	-6.8%
IP mainlines/customers in 000						
Broadband access lines - retail ⁴⁾	614	603	-1.8%	614	603	-1.8%
- Residential	512	505	-1.3%	512	505	-1.3%
- Business	102	98	-4.5%	102	98	-4.5%
Broadband access lines - wholesale ⁵⁾	73	105	44.7%	73	105	44.7%
- Business	73	105	44.7%	73	105	44.7%
TV customers	393	388	-1.5%	393	388	-1.5%
- Residential	370	364	-1.6%	370	364	-1.6%
- Business	23	23	-0.3%	23	23	-0.3%
thereof IPTV	333	316	-5.1%	333	316	-5.1%
- Residential	312	296	-5.2%	312	296	-5.2%
- Business	21	20	-2.9%	21	20	-2.9%
thereof Cable TV	6	6	-0.4%	6	6	-0.4%

- Residential	6	6	-0.4%	6	6	-0.4%
- Business	0	0	-1.4%	0	0	-1.4%
thereof Satellite TV	54	65	20.6%	54	65	20.6%
- Residential	52	63	20.5%	52	63	20.5%
- Business	2	3	23.0%	2	3	23.0%
Fixed-line customers	2	2	13.2%	2	2	13.2%
VPN connection points	5	5	-0.8%	5	5	-0.8%
Broadband retail ARPA (monthly average for the period in HRK)	126	124	-1.8%	126	126	-0.3%
- Residential	124	121	-2.6%	124	123	-1.0%
- Business	137	140	2.1%	136	140	3.1%
TV ARPU (monthly average for the period in HRK)	80	82	2.0%	80	81	1.3%
- Residential	79	81	1.5%	79	80	0.9%
- Business	97	105	8.0%	97	103	6.4%
Data lines in 000						
Total data lines	5	5	1.7%	5	5	1.7%
Wholesale customers in 000						
CPS (Carrier Pre-Selection)	14	9	-40.4%	14	9	-40.4%
NP (Number portability) users/number	736	873	18.5%	736	873	18.5%
ULL (Unbundled Local Loop)	168	159	-5.5%	168	159	-5.5%

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

Highlights:

- Continuously strengthened position in the market and leadership across all categories
 - Overall TRI*M result in 2015 has improved.
 - Redesigned portfolio of services spurred market recovery
- Financial outlook achieved, with the main financial KPIs stabilized after several years
 - Revenue increased over previous year by HRK 11 million or 0.2%
 - EBITDA is stable in comparison to previous year
 - CAPEX rose by HRK 378 million or 34.8% over previous year due to significant investment in network
 - Net cash flow from operating activities rose 2.0 % over previous year mainly due to improved active working capital driven by accounts receivables and lower tax paid
- Strategic achievements
 - Transformation activities continued in 2015 within the strategic program HORIZONT
 - Results of HORIZONT program are visible in terms of costs savings, improved customer experience, changes in fixed and mobile services, and better utilization of the FttH VDSL technology
 - Key projects for prioritisation in 2016 have been defined
 - HT successfully engaged in the PAN IP project, targeting a move to change to an integrated service production platform: HT successfully tested voice over LTE (VoLTE) in a laboratory environment in cooperation with the DT. Proof of concept testing also included anchoring calls to IMS and call continuity in the case of switchover between 3G and 4G.
- Strong investment in the network, with capex of HRK 1,463 million in 2015
 - HT is the third telco in the EU to have migrated all of its customers and services to All IP network architecture
 - In 2015 indoor population coverage increased from 45% to 65%
 - Mobile network optimized resulting in independent P3 “Best in Test” certificate
 - Download throughput of mobile network increased up to 225 Mbps in some urban areas
 - Next generation access potential increased in fixed network

Mobile telecommunications

The mobile customer base decreased by 0.9%, from 2,252,000 customers at the end of 2014 to 2,233,000 customers at the end of 2015, driven by the residential segment (down 1.6%) mainly as a result of overall aggressive competitive offers on the market and a decrease of customers with double SIM cards, due to the continuing trend of in the business segment (up 1.7%) mainly as a result of the launch of the new favorable flat and cross net offers. The decline of the residential customer base was partially offset by an increase “Najbolje” mobile attractive tariffs and growth in M2M (machine to machine) and Mobile Internet.

The number of postpaid customers was 1.8% higher than at the end of 2014 with the increase seen in both residential (up 2.3%) and business (up 1.1%) segments. This was a result of strong marketing of attractive tariffs and handsets as well as Mobile Net offers.

In order to spur the market recovery HT launched new mobile price premium tariffs called “Najbolje” at the beginning of May 2015. These “Najbolje” tariffs are customized to suit all HT customers’ needs and enhanced by many benefits such as 4G speeds and additional services included in the tariffs. Furthermore, within the “Najbolje” tariffs customers can opt for additional services like MAXtv To Go, Navigation or Road Aid free of charge. Top handset models like the iPhone, Samsung Galaxy, Xperia are available within Najbolje tariffs.

In February, HT doubled the maximum mobile Internet speed in its 4G mobile network from 75 Mbit/s to 150 Mbit/s, which is now accessible to a considerable number of Croatia’s residents. Speeds two times higher are available to customers with many new services related to live TV, HD video streaming and online gaming. At the beginning of July 2015, HT received the P3 Best In Test certificate confirming the quality of HT’s mobile network as the fastest mobile Internet and the best mobile voice service amongst all networks in Croatia.

Continuing its intensive development of the 4G network in the fourth quarter of 2015, HT has achieved speed of 225Mbit/s, currently the highest mobile network speed in Croatia, in Varaždin and Zagreb, and soon plans to offer them in other major cities, and also in rural areas.

The number of prepaid customers was down by 3.4% from the end of 2014 due to an overall decline in the prepaid market and strong competition. Ongoing MNP and retention efforts in the prepaid segment as well as a focus on additional value for HT prepaid customers are being undertaken to mitigate the decline. New redefined T prepaid tariffs and options were launched in the second quarter of 2015 introducing three new options and Internet *dan* 4G. Additionally, in the third quarter, HT introduced a promotion of an option called “Sve” offering double the amount of minutes, messages and data at the same price.

HT provided a special offer for tourists during the summer that included unlimited surfing at 4G speed in Croatia.

A new media campaign was launched in September for Simpa “Zmajaska opcija”. Simpa customers can choose how they want to spend 3,000 units, by combining minutes, SMS and GB.

In October, HT introduced a special offer for skiers abroad called the Travel & Surf option with multiple advantages for customers. Customers can choose one, three or seven days and the price and data included depends on the number of days selected.

Bonbon continued to offer additional value, supported by a new media campaign, with discounts on L and XL packages. In December, Bonbon opened its first stylish, modern retail store, where customers can test a range of devices, apps and accessories. The store offers an environment with interactivity, professional support, information and enjoyment in order to make the purchase of telecoms equipment a pleasurable experience and thereby enhance customer satisfaction.

Multiplus mobile launched 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 2015 increased by 3.8% compared to the previous year due to the introduction of flat offers and the offering of bundles with a high number of minutes in postpaid and prepaid tariffs, in line with overall market trends.

Blended ARPU decreased by 5.6% compared to the previous year as a result of a highly competitive market driven by attractive offers. Respectively, HT increased its share of tariffs with bundles and share of data tariffs with lower ARPU. The economic situation also had an impact on ARPU.

Fixed line

In comparison to the end of 2014, HT Group's fixed retail customer base decreased by 7.8% to 968,000. The decline was heavily impacted by the general economic situation and was accelerated by the telecommunication market trend of fixed to mobile and IP substitution, as well as regulation and enforced competition.

Nevertheless, the HT Group further continues to undertake proactive and reactive churn prevention offers and activities.

To mitigate the decline, the Group introduced fixed line promotions offering phone connection for HRK 1 with 24 MCD accompanied by the new fixed line tariffs Halo Non stop.

Fixed telephony users generated 1,311 million minutes in 2015, which was 15.1% lower than the previous year as a result of the fixed market decline and fixed to mobile substitution.

Fixed voice ARPA decreased by 6.8% in comparison to the previous year, as a result of the general market trends outlined above.

Internet

The TV customer base decreased by 1.5% from 393,000 customers at the end of 2014 to 388,000 of customers at the end of 2015 as a result of aggressive competitive bundled offers on the market and regulation.

TV ARPU was 1.3% higher in comparison to the previous year. This was result of continuous service and program improvements driven by premium content and enriched exclusive TV content with new programming.

HT offered "Best Internet and 6 months TV for HRK 1", available to all MAX2, ULTRA customers, MAXobitelj and MAXadsl customers. Moreover, HT continued to promote the MAXtv package Pickbox, which contains more than 70 hit series and 300 movies.

Satellite TV continues to grow, with further improvements providing more value to the customers, and resulting in 20.6% more customers than at the end of 2014. Promotions were available offering 50% discount on the Basic or Basic Extra package monthly fee for the first nine months or one month of access to additional packages free of charge.

HT continued its convergent and joint mobile and fixed activities promoting the MAXobitelj product with a favorable mobile tariff, more mobile Internet and top-class smartphones and tablets, making this offer even more attractive.

During the Christmas and New Year period, the offer was further improved as follows: MAXtv for new customers or Pickbox, HBO Premium or MAX Arena for existing MAXtv customers and selected Najbolja mobile plan tariff for HRK 1 during first six months.

At the end of 2015, the Broadband retail customer base was 1.8% lower than last year reaching 603,000. The decline is coming from both segments, business (down 4.5%) and residential (down 1.3%) due to stronger competition and aggressive offers in the market.

To mitigate the decrease HT continues to promote its MAX2/MAX3 packages and Ultra MAX packages on FttH accompanied by attractive options included in the price, smartphone and tablet offers like Samsung Galaxy Ace 4 and Samsung Galaxy Tab4 10.1 LTE. These packages are based on FttH technology, which enables speeds ten times higher than standard ADSL speeds.

Under its Integrated Network Strategy, HT will continue to invest in the development of the fiber network and plans to expand its fiber optical internet zones to maintain its position as the largest fixed broadband and TV operator in Croatia.

Data

The number of data lines was 1.7% higher compared to the previous year due to the development of the Metro Ethernet service.

Wholesale

At the end of 2015 there were 159,000 active ULL lines, which was 5.5% lower in comparison to same period the previous year. The number of ULL lines decreased due to a higher focus on alternative operators for broadband services. Broadband wholesale access lines (DSL and naked DSL lines) reached 105,000, which was 44.7% above number of lines at the end of 2014.

The number of WLR lines at the end of 2015 decreased to 104,000 compared to 116,000 at the end of 2014 as a result of declining voice market.

As a consequence of the WLR offer, the number of "pure" CPS customers was reduced to the level of 9,000 at the end of 2015 for a decrease of 40.4% compared to the same period last year.

At the end of 2015 there were 873,000 ported numbers from HT's fixed network to other fixed networks, 18.5% above the number of ported numbers at the end of the previous year. Growth in the number of ported numbers compared to the previous year was mainly connected with growth of NBSA services.

Regulated prices for services of national fixed and mobile termination were reduced as of 1 January, 2015. The regulated price for services of fixed origination was decreased twice in 2015 (as of 1 January and additionally from 1 May).

In the competitive domestic wholesale market of data and IP services, 2015 was a very successful year for HT wholesale. Total capacities sold increased by 25.9% reaching 295 Gbps at the end of the year. Especially successful was sale of IP upstream services, with growth of 155% in volume compared to 2014.

Visitor roaming services are still a major source of international wholesale revenue. Roaming traffic showed further growth of usage in 2015, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 19.1% more voice originating minutes and 60.9% more data traffic than last year. At the same time, on the wholesale cost side, HT's mobile customers generated 17.8% more roaming originated voice traffic in foreign countries and 120.2% more data traffic. In May 2015, HT started the implementation of 4G (LTE) roaming services with foreign operators worldwide and ended 2015 with 51 bilateral 4G roaming interconnections, covering all major visitor emitting countries as well as major destination countries of HT roamers (where LTE is available).

The total capacity of data services sold in international market increased by 5.8% and the capacity of IP services sold increased by 15.6%, both contributing to wholesale international revenue. At the end of the year total sold capacity reached 307 Gbps of bandwidth.

The third significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminating in HT mobile network increased by 26.8% compared to the same period in 2014, while international traffic toward the HT fixed network decreased by 15.1% at the same time. Due to the fact that HAKOM deregulated the price of termination of international voice traffic originated in non-EU/EEA countries toward Croatian fixed and mobile networks as from 1 April, 2015, HT, as well as other telecom operators in Croatia, has increased termination rates for such traffic, resulting in a significant revenue increase in that category.

ICT

Continuous growth in all portfolio segments was driven by HT Group's strategic focus in the area of Cloud and Managed Solutions. The strongest growth was recorded in customized ICT solutions together with Combis and other ICT Enterprise partners. The Group focused on market education and customer experience to further strengthen its leading position on the market. The ICT services portfolio was enhanced by with new services like Pantheon ERP, Localis, Disaster Recovery and Mini CRM.

The revenue growth of HRK 95 million compared to the previous year was mainly driven by higher revenues from licenses, network (LAN/Wi-Fi) solutions, sales of ICT equipment, virtualization of IP PBX, providing consulting services and sales of specific IP communication and safety equipment, enterprise software/professional solutions.

Energy

Revenues from energy were HRK 35 million higher when compared to 2014 due to a greater number of customers, which rose 34.1%. In 2015, packages of telecommunication services and energy for residential customers were launched, and the Group will focus on developing these plans further.

The development of packages of telecommunication services and energy has also been initiated for business customers, as part of initiatives to boost customer stickiness.

3. Group financial performance

3.1 Revenue

in HRK million (IFRS)	Q4 2014	Q4 2015	<i>change</i>	Jan-Dec 2014	Jan-Dec 2015	<i>change</i>
Voice revenue	635	565	-10.9%	2,700	2,324	-13.9%
Non voice revenue	672	654	-2.7%	2,804	2,745	-2.1%
Other service revenue ¹⁾	201	214	6.5%	691	787	13.8%
Terminal equipment	80	110	36.5%	298	331	11.0%
Miscellaneous ¹⁾	178	186	4.3%	414	733	76.9%
Revenue	1,766	1,729	-2.1%	6,908	6,919	0.2%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -64 million) to Other service revenue (HRK +64 million) was made for 2014

Total consolidated revenue increased by 0.2% to HRK 6,919 million in 2015 from HRK 6,908 million in 2014. The increase was driven by higher miscellaneous revenue (up HRK 319 million), other service revenue (up HRK 95 million) and terminal equipment (up HRK 33 million), but partially offset by a decrease in voice revenue (down HRK 376 million) and non voice revenue (down HRK 59 million).

In 2015 Optima Telekom's contribution to revenue was HRK 296 million, which consisted of HRK 425 million of Optima Telekom's third party contribution and is presented in total under miscellaneous, and HRK 129 million of inter-company transactions that decreased mainly due to non voice wholesale revenue. In 2014, Optima Telekom contributed HRK 149 million to HT Group revenue and was of HRK 221 million of Optima Telekom third party revenue and HRK 73 million of inter-company transactions.

Excluding Optima Telekom, the revenue decline slowed to 2.0% in 2015 in comparison to 2014 when it was 4.0% lower than the previous year.

Although wholesale prices are continuously decreasing (national mobile, fixed and regulated international termination), deregulation of non EU termination prices offset the negative impact coming from price declines.

The contribution of subsidiaries in Group revenue in 2015 was as follows: Iskon - HRK 381 million (2014: HRK 371 million) and Combis - HRK 471 million (2014: HRK 418 million).

Voice revenue

Voice revenue declined by HRK 376 million or 13.9% in comparison to 2014 and was driven by mobile (down HRK 225 million or 17.4%) and fixed retail voice revenue (down HRK 155 million or 12.1%), partially offset by an increase (up HRK 4 million or 2.9%) in wholesale voice.

The decline in mobile came from both residential (down HRK 166 million or 18.7%) and business segment (down HRK 58 million or 14.5%)

Lower average price of usage resulted from a saturated mobile market and contributed to the revenue decrease, as well as a slightly lower number of customers (down 0.9%), driven by residential segment.

The fall in mobile was the result of MTC revenue declines, a drop in prepaid and postpaid retail revenue and lower revenue from visitors.

MTC revenue dropped by HRK 84 million, or 43.7%, as a result of price decreases from January 2015 in national mobile to mobile traffic (2015: HRK 0.063 vs 2014: HRK 0.1282). International termination prices decreased from January 2015 at national termination level (2015: HRK 0.063 vs 2014: Q1 & Q2 HRK 0.45, Q3 & Q4 HRK 0.32), but from April 2015 deregulation of international termination prices from non EU countries was introduced and consequently increased international termination prices.

Despite an increase in the postpaid customer base (up 1.8%) in both residential and business, total postpaid retail revenue declined by HRK 67 million or 9.8%, from both residential (down HRK 49 million or 12.7%) and business (down HRK 18 million or 6.0%). The decline in postpaid retail residential was a result of lower ARPU, coming from continuous substitution of traditional voice services with data.

This trend was supported with the introduction of the new postpaid tariffs more focused on data with 4G speeds and additional services included in bundles.

The decline in postpaid retail business was driven by lower ARPU, as a result of a higher share of bundle tariffs.

Prepaid retail revenue decreased by HRK 52 million or 14.6%, driven by residential and caused by a lower customer base, down 3.4%, and lower ARPU. The customer base was lower due to strong competition, the shift to low value operators and the overall decline of prepaid market, while lower voice ARPU was an outcome of a higher focus on prepaid data packages, providing affordable data traffic for prepaid customers and further accelerating the substitution of voice services for data.

Visitors revenue declined although voice traffic increased. Deregulation of international termination prices from non EU countries positively impacted visitor revenue.

In 2015, fixed retail voice declined by HRK 155 million, or 12.1%. From total decline, HRK 102 million or 10.9% was from residential and HRK 53 million or 15.3% from the business segment. The decline was the result of a fall in retail mainlines of 7.8% compared to the previous year, ongoing fixed to mobile substitution due to strong mobile offers which are much more attractive than the fixed voice proposition and a strong regulatory environment. Consequently, the number of minutes dropped by 15.1% and ARPA voice per access declined by 6.8%.

Fixed wholesale voice increased by HRK 4 million or 2.9% and the rise was mainly driven by the deregulation of international termination prices from non EU countries from April 2015, but offset by lower fixed national prices (2015 HRK 0.005 vs 2014 HRK 0.024), followed by a decline in international fixed and mobile interconnection prices from January 2015 (2015: HRK 0.063 vs 2014: Q1 & Q2 HRK 0.45, Q3 & Q4 HRK 0.32).

Non voice revenue

Non voice revenue decreased 2.1% in comparison to 2014. The decline was the result of lower fixed wholesale revenue, SMS revenue, ADSL, other non voice revenue and VPN. These falls were partially offset by an increase in mobile data revenue, visitor revenue and traditional data.

The decline in wholesale fixed non voice revenue mainly resulted from the higher consolidation impact related to Optima Telekom, partially offset by higher infrastructure revenue.

Lower ADSL revenue was the result of lower broadband customer base, which was down 1.8%.

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

TV revenue was in line with 2014 despite a lower TV customer base, down by 1.5%, as a consequence of TV market saturation due to a range of service providers and the lower spending power of households, with some optimizing costs by switching to free to air DVB-T channels. TV ARPU was higher, up 1.3%, driven by new and exclusive content.

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

Tariffs “Najbolje” introduced in 2015 contributed to higher data revenue, with the focus on 4G network services included in tariffs.

Other service revenue

An increase in other service revenue by HRK 95 million or 13.8%, in comparison to the previous year was driven by higher ICT revenue. The Combis contribution came primarily from IP communications, application/professional solution and network infrastructure and connectivity. HT Inc contributed positively due to revenue growth from standard the ICT portfolio (Cloud services) and customized solutions (managed services, private cloud and hardware reselling).

Terminal equipment

Terminal equipment revenue increased by HRK 33 million or 11.0% in comparison to 2014. This was a result of the positive contribution from increased business revenue (up HRK 17 million or 20.3%) and residential (up HRK 16 million or 7.4%), due to shifting handset mix in favour of more valuable phones.

Miscellaneous

An increase in miscellaneous by HRK 319 million or 76.9% in comparison to 2014, was mainly driven by higher Optima consolidated segment revenue in the amount of HRK 204 million. Optima Telekom was consolidated for the entire 2015, with impacting miscellaneous revenue by HRK 425 million while in 2014 consolidation was started in July and the impact was HRK 221 million.

The remainder of the increase - HRK 115 million - was mostly the result of higher new fees introduced from 1 July 2014, which has been charged to mobile customers as a result of the new fee enforced by the government, higher revenue from energy business (HRK 35 million) due to increased customer base and higher mobile (HRK 11 million) mainly due to higher non recurring fee, revenue for promotional activities from European brand campaign and national roaming revenues.

Other operating income

Other operating income decreased by HRK 26 million or 21.2% compared to the last year mainly as a result of lower income from fees related to a court decision regarding the collection process, but partially offset by higher revenue from AXE selling after PSTN migration.

3.2 Operating expenses

In comparison to 2014, total consolidated operating expenses decreased by HRK 65 million, or 1.5%, to HRK 4,326 million in 2015. In 2015 HT Group initiated an indirect opex savings project that identified measures which resulted in a positive impact on expenses in 2015.

This decrease was driven by lower employee benefits expenses (HRK 105 million) and write down of assets (HRK 28 million), partially offset by higher material expenses (HRK 35 million) and other expenses (HRK 31 million), and lower work performed by Group and capitalized (HRK 2 million).

Excluding the effect of lower exceptional items related to transformation and restructuring costs of HRK 61 million (2015: HRK 91 million vs 2014: HRK 152 million) and the higher contribution of Optima Telekom excluding exceptional items of HRK 89 million (2015: HRK 192 million vs 2014: HRK 103 million), operating expenses decreased by HRK 94 million or 2.3% to HRK 4,042 million in 2015.

3.2.1 Material expenses

In comparison to 2014, Material expenses increased by HRK 35 million to HRK 1,982 million in 2015 as a result of higher merchandise, material and energy expenses (up HRK 106 million or 9.1%) but partially offset by lower services expenses (down HRK 71 million or 9.1%).

The merchandise costs increase (HRK 76 million) was mainly driven by higher ICT, while fixed and mobile merchandise costs were lower compared to 2014. An ICT merchandise increase was driven by higher revenue, mostly in network infrastructure, IP communication and professional solutions. The decrease in the fixed segment was driven by residential (down HRK 20 million) due to higher costs in 2014 as a result of spill-over of gadgets from the Christmas campaign in January 2014 and lower intensity of fixed promotional campaigns in 2015. This was partially offset by higher costs in business (up HRK 5 million) due to intensive retention activities. A slight decrease in mobile merchandise costs (down HRK 3 million) was driven by the residential segment (down HRK 6 million) and offset by higher merchandise in business segment (up HRK 2 million) as a result of a shift in the handset mix towards more valuable phones.

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 the revenue increase.

A decrease in material and energy costs (down HRK 12 million) was mainly a result of outsourcing of HT's technology unit for the construction to Ericsson Nikola Tesla in Q3 2014 and savings made by the closure of exchanges a part of the PSTN migration in Q4 2014.

The decrease in services expenses (down HRK 71 million) mainly came from lower telecommunication costs and copyright fees, which were partially offset by higher online costs.

Domestic telecommunications costs declined (down HRK 77 million) mainly due to lower fixed (FTR) and mobile (MTR) unitary termination prices from January 2015 as well as lower fixed traffic by 15.1%. From total fall, HRK 57 million was from residential and HRK 32 million in the business segment, and was partially offset by higher costs coming from Optima consolidated segment in amount of HRK 12 million.

Lower copyright fees were caused by higher share of capitalized content rights contracts and lower number of TV customers by 1.5%.

An international telecommunication cost increase (HRK 28 million) was primarily due to the higher contribution of the Optima consolidated segment, in amount of HRK 37 million, and that was partially offset by lower costs from the business segment (down HRK 7 million) and residential (down HRK 2 million) segment coming from inter-operator tariff – IOT discounts.

An online costs increase (up HRK 5 million) was mainly related to the increase of the ICT standard portfolio and in line with increased revenue.

Excluding the higher Optima Telekom contribution of HRK 50 million, material expenses decreased by HRK 15 million in comparison to last year.

3.2.2 Employee benefits expenses

In comparison to last year, total employee benefits expenses decreased by HRK 105 million or 9.3% to HRK 1,023 million.

Excluding the impact of a decrease in redundancy costs of HRK 46 million (2015: HRK 91 million vs 2014: HRK 138 million) and the higher Optima Telekom contribution excluding exceptional items of HRK 22 million, employee benefits expenses decreased by HRK 81 million. This was mainly due to lower number of FTEs, but was partially offset by higher costs from the Collective agreement since an actuarial calculation for 2014 decreased costs in 2014 by HRK 65 million.

The number of FTEs decreased from 4,994 in 2014 to 4,742 in 2015 mainly due to headcount optimization additionally supported by new employments arising from company transformation initiatives. Optima Telekom contributed 347 FTEs.

3.2.3 Other expenses

Other expenses increased by HRK 31 million or 2.4% to HRK 1,342 million in 2015 primarily due to the negative effect of higher licenses and external employment. This increase was partially offset by lower rental, consultancy cost, ex-patriate costs and maintenance.

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

An increase in external employment mainly came from additional engagement of agency workforce in call centers and lower IVR usage, as well as additional sales activities in the residential segment.

A decrease in rental was mostly driven by a higher share of capitalization related to electronic communication infrastructure in 2015.

Lower consultancy costs in 2015 were mainly due to lower engagement of consultants related to the transformation and reorganization initiatives than in 2014.

A decrease in maintenance was a result of lower cost in the network, due to better conditions negotiated with vendors and partially offset by higher costs due to outsourcing of HT's technology unit for construction to Ericsson Nikola Tesla in Q3 2014.

In comparison to 2014, excluding the higher Optima Telekom contribution of HRK 20 million, other costs increased only by HRK 11 million, although they were under strong pressure from the regulatory regime.

3.3 Write down of assets

In comparison to 2014, the assets write down decreased by HRK 28 million or 29.7% to HRK 67 million in 2015. 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 prebankruptcy settlement and better collection of receivables in the retail part in 2015. This was partially offset with an increase in the residential segment mainly from the mobile segment.

3.4 Depreciation and amortization

In comparison to 2014, depreciation and amortization were up HRK 77 million or 5.4%. The impact of Optima Telekom consolidation rose to HRK 39 million. Despite a higher Optima Telekom contribution, an increase in depreciation and amortization was driven by higher amortization from content capitalization and the electronic communication infrastructure, for which initial recognition has been changed from operating expenses to capital expenditure.

3.5 HT Group profitability

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Revenue	1,766	1,729	-2.1%	6,908	6,919	0.2%
EBITDA before exceptional items	744	703	-5.5%	2,793	2,783	-0.4%
Exceptional items ¹⁾	37	4	-89.4%	152	91	-39.8%
EBITDA after exceptional items	707	699	-1.1%	2,641	2,691	1.9%
EBIT (Operating profit)	303	281	-7.5%	1,225	1,199	-2.2%
Net profit	426	194	-54.4%	1,142	925	-19.1%
EBITDA margin before exceptional items	42.1%	40.6%	-1.5 p.p.	40.4%	40.2%	-0.2 p.p.
EBITDA margin after exceptional items	40.0%	40.4%	0.4 p.p.	38.2%	38.9%	0.7 p.p.
EBIT margin	17.2%	16.2%	-0.9 p.p.	17.7%	17.3%	-0.4 p.p.
Net profit margin	24.1%	11.2%	-12.9 p.p.	16.5%	13.4%	-3.2 p.p.

1) Exceptional items in Jan-Dec 2015 refer to redundancy costs totalling HRK 91 million. Exceptional items in 2014 refer to redundancy costs totalling HRK 138 million and transformation consultancy costs totalling HR 14 million.

EBITDA before exceptional items slightly decreased by HRK 10 million or 0.4% to HRK 2,783 million in 2015 mainly as a result of lower other operating income (down HRK 26 million) while revenue rose (up HRK 11 million or 0.2%) and operating expenses excluding exceptional items were lower (down HRK 5 million or 0.1%).

Optima Telekom has been consolidated into HT Group results since 1 July 2014, and contributed to Group results in 2014 for a period of 6 months, while in 2015 it contributed for a period of 12 months. The net effect of the Optima Telekom contribution in 2015 in comparison to 2014 was higher by HRK 50 million and consisted of a HRK 101 million higher Optima Telekom third party contribution and a HRK 52 million rise in inter-companies transactions within HT Group.

EBITDA after exceptional increased by HRK 50 million or 1.9% to HRK 2,691 million in 2015 mainly as a result of lower exceptional items related to transformation and restructuring costs of HRK 61 million (2015: HRK 91 million vs 2014: HRK 152 million)

Consolidated net profit after non controlling interests decreased by 19.1% to HRK 925 million in 2015 from HRK 1,142 million in 2014. This decrease was primarily the result of higher taxation (up HRK 180 million), amortization and depreciation (up HRK 77 million), the effect of the non controlling interest (HRK 21 million) from Optima Telekom consolidation that impacted HT Group net profit negatively, as well as lower EBITDA before exceptional items (down HRK 10 million). This decrease was partially offset by lower exceptional items (transformation related redundancy and consultancy costs down by HRK 61 million) and higher net financial income (up HRK 9 million).

The positive contribution of net financial income (up HRK 9 million) was mainly the result of higher financial income (up HRK 18 million), mainly coming from higher exchange rate gains, and lower financial expenses (down HRK 1 million). This positive contribution was partially offset by lower result

from investment in joint ventures (HRK 10 million). Optima Telekom contributed to higher net financial income (up HRK 16 million).

Optima Telekom contributed to Group net profit after non-controlling interest a profit of HRK 4 million in 2015 while in 2014 it contributed a loss of HRK 1 million.

3.6 Balance sheet

The total value of assets increased by 1.7% in comparison to the end of 2014, driven by an increase in non-current assets partly due to a voluntary change of accounting policy in regards to costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way.

Total issued share capital and reserves increased from HRK 11,276 million at 31 December 2014 to HRK 11,641 million at 31 December 2015 as a result of realized net profit for 2015 in amount of HRK 925 million and dividend payment in May 2015 in the amount of HRK 573 million. An increase in ordinary share capital by HRK 940 million was due to partial reinvestment of profit for 2014.

Total non-current liabilities decreased by HRK 99 million or 15.1% mainly due to a decrease in the non-current portion of the liability for capitalized content contracts and the transfer of pre-bankruptcy liabilities of Optima Telekom to current liabilities due to maturity.

Total current liabilities decreased by HRK 28 million to HRK 1,882 million at 31 December 2015, mainly due to redundancy provisions.

3.7 Cash flow

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

Compared to 2014, net cash flow from operating activities increased by 3.1% mainly due to improved active working capital driven by accounts receivables and lower tax paid.

Compared to 2014, net cash flow from investing activities increased by 54.3% mainly as a result of significantly higher inflows driven by the maturity of financial assets (mainly for time deposits and REPO arrangements).

Net cash flow from financing activities increased by 10.5% mainly due to lower dividend paid in 2015.

3.8 Capital expenditure

in HRK million	Q4 2014	Q4 2015	<i>change</i>	Jan-Dec 2014	Jan-Dec 2015	<i>change</i>
HT Group	358	605	68.9%	1,086	1,463	34.8%
Capex / Revenue ratio	20.3%	35.0%	14.7 p.p.	15.7%	21.2%	5.4 p.p.

Capital expenditure at HT Group level in 2015 was HRK 1,463 million, up 34.8% or HRK 378 million compared with 2014.

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

By investing in the existing optical access network, HT has enabled FttH access for 171,3k households. In addition, investment in the copper access network continued with 96.3% central office locations now equipped with VDSL equipment and six projects for access network modernization completed, resulting in significant access loop shortening.

Mobile broadband deployment continued to increase coverage, capacity, scalability and the performance of mobile services. 4G download throughput has been increased up to 225 Mbps in the Zagreb LTE1800 coverage area and up to 150 Mbps in rest of LTE1800 coverage area. Total 4G population coverage increased from 45.3% at EoY 2014 to 65.0% at EoY 2015. An independent benchmark campaign in June confirmed HT as the best mobile network in Croatia, with highest 3G and 4G coverage and best performance for voice and data services (P3 Best in Test certificate).

At the end of Q4 2015, HT's 3G network had 77% population coverage indoor.

The implementation of the All-IP service platform was a strategic priority for the business transformation in the period from 2012 to 2015. In December 2015 the entire PSTN migration was completed.

As part of a strategic orientation to further enhance the customer experience and service quality in the mobile domain, a set of new solutions has been implemented (Traffica, Magamon, CEM).

In IT, activities were focused on using technology to bring about the 'digital company' business model and 'on-line' business model transformation to enable further digitalization and ensure overall company cost optimization.

In the domain of support to the business portfolio, new enhanced convergence models were implemented with new tariff options. A single point of sale and customer administration with one bill for all services is also available.

HT continued to undertake the further consolidation of the IT infrastructure, with particular emphasis on server virtualization and the modernization of storage systems, bringing increased efficiency in the

billing process and preparation of data for reporting by up to 60%, stability of critical IT systems while achieving significant savings in infrastructure maintenance and electrical power consumption.

Pan IP program

Competitive pressure, decreasing revenues and ever shorter product lifecycles are major challenges for all telco operators in the EU, and as a result therefore DT has established a group wide transformation program called "PAN IP". The implementation approach follows the principle of intensive cross country and cross functional collaboration in response to major challenges in fragmented telco markets in the EU. Telco operators from large markets e.g. AT&T, Verizon etc. as well as OTT players (e.g. Google, Skype, Whatsapp etc.) attack core markets with internationally centralized production and offer ever more core Telco Services with rapid innovation speeds.

These challenges can no longer be addressed only on a national level anymore. In the face of globalized competition, digital sovereignty can only be achieved through a united effort. Therefore centralized and virtualized production are major trends in the telecommunications industry.

HT participates in the Pan IP program of Deutsche Telekom, a Pan European network through which the joint production of services is being developed for Deutsche Telekom European subsidiaries that provide fixed and mobile telephony.

An integrated production model which integrates 10 productions into one Pan European production, should provide synergies in development and technological leadership, and custom products will be available locally, serving the needs of local market and create new business models.

Pan European production involved a target network/ IT infrastructure based on virtual technology. The focus is on local customer needs where companies build individual products based on the pick-and-choose approach.

The first Pan European service, VPN Cloud, was developed by experts from HT and was launched in three countries simultaneously: Croatia, Hungary and Slovakia.

As part of the PAN IP program Deutsche Telekom is in the process of establishing several Pan Net companies in other European countries. As part of this process, companies have already been established in Greece, Poland, Hungary and Croatia in 2015 and director of each PanNet company is the CTIO of the local company.

The Pan Net company is an asset company and owns the "PAN-NET Test Lab", the equipment necessary for testing the software and hardware purchased from external suppliers.

In Croatia, Deutsche Telekom established a Pan Net company in October 2015 under the name "Deutsche Telekom PanNet Ltd. for services" in Zagreb. The Central PanNet company in Bratislava operates as a unified point of contact in relation to all operational issues of local PanNet companies, products and services, leads an action plan for products and manages it.

4. Overview of segment profitability

After financial consolidation of Optima Telekom into HT Group results as of Q3 2014, the HT 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, electricity 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, electricity and 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 HT's full ownership - Iskon, Combis, KDS and E-Tours - are part of the above mentioned segments, following the same structure as the Mother Company.

The Optima consolidated unit includes the contribution of all Optima Telekom's functions to the HT 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 walls" introduced by the regulator, access to Optima Telekom figures is limited. So only financial consolidation is performed, while Optima Telekom's non financial KPIs are not included into HT Group achievements.

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

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

4.1 Residential Segment

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Voice revenue	451	373	-17.2%	1,823	1,555	-14.7%
Non voice revenue	437	442	1.1%	1,776	1,782	0.3%
Other service revenue ¹⁾	10	9	-11.7%	43	45	3.2%
Terminal equipment	55	83	52.1%	214	230	7.4%
Miscellaneous ¹⁾	41	44	7.5%	84	165	95.4%
Revenue	994	952	-4.2%	3,942	3,776	-4.2%
Operating expenses	332	315	-5.0%	1,254	1,166	-7.1%
Contribution to EBITDA before EI	662	636	-3.9%	2,687	2,611	-2.8%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -37 million) to Other service revenue (HRK +37 million) was made for 2014

4.2 Business Segment

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Voice revenue	184	192	4.3%	876	769	-12.3%
Non voice revenue	235	212	-9.7%	1,028	963	-6.3%
Other service revenue ¹⁾	191	205	7.5%	648	742	14.5%
Terminal equipment	26	27	3.8%	83	100	20.3%
Miscellaneous ¹⁾	30	40	36.2%	109	144	31.9%
Revenue	664	676	1.7%	2,745	2,718	-1.0%
Operating expenses	340	359	5.4%	1,352	1,364	1.0%
Contribution to EBITDA before EI	324	317	-2.2%	1,393	1,353	-2.9%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -26 million) to Other service revenue (HRK +26 million) was made for 2014

4.3 Network and support functions

in HRK million	Q4 2014	Q4 2015	change	Jan-Dec 2014	Jan-Dec 2015	change
Other operating income	28	34	22.9%	113	96	-15.3%
Operating expenses ¹⁾	338	342	0.9%	1,523	1,501	-1.4%
Contribution to EBITDA before EI	-310	-307	1.1%	-1,411	-1,406	0.3%

1) Operating expenses are restated for 2014 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs in 2015

4.4. Segment Optima Telekom consolidated

in HRK million	Q4 2014	Q4 2015	<i>change</i>	Jan-Dec 2014	Jan-Dec 2015	<i>change</i>
Revenue	108	102	-5.7%	221	425	92.0%
Other operating income	11	1	-93.4%	11	2	-80.6%
Operating expenses	51	46	-9.8%	110	203	85.1%
Contribution to EBITDA before EI	68	56	-17.1%	123	224	82.3%

Consolidation of Optima Telekom financial figures started since 1 July 2014. The Optima Telekom contribution in 2014 includes six months period results, and in 2015 includes results for the whole year. The Optima segment consolidated does not include the full Optima Telekom consolidation effect since the internal transactions on HT Inc and Iskon are included in business and residential segments. Including internal transactions effect, Optima Telekom's net contribution to HT Group revenue for 2015 amounted to HRK 296 million against HRK 149 million in 2014. The Optima Telekom contribution to EBITDA before exceptional items amounts for 2015 amounted to HRK 106 million while for 2014 it was HRK 57 million.

5. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue decreased by HRK 187 million to HRK 5,876 million in 2015 from HRK 6,063 million in 2014. The decrease was driven by lower voice (down HRK 366 million) and non voice revenue (down HRK 10 million) mainly related to decline in SMS, ADSL and other non voice fixed revenue. This was partially offset by higher mobile data revenue. The decline was also partially offset by an increase in miscellaneous revenue (up HRK 116 million) resulting from the new fee charged to mobile customers enforced by the Government and also by the energy business, as well as an increase in other service revenue (up HRK 40 million), driven by ICT and terminal equipment (up HRK 33 million).

EBITDA before exceptional items

EBITDA before exceptional items decreased by HRK 77 million to HRK 2,570 million in 2015 from HRK 2,647 million in 2014, mainly as a result of lower revenue (down HRK 187 million) and lower other operating income (down HRK 15 million) partially offset by lower operating expenses (down HRK 125 million).

HT Inc. operating expenses before exceptional items decreased by HRK 125 million to HRK 3,397 million in 2015 from HRK 3,521 million in 2014.

This decrease resulted from lower employee benefits expenses (down HRK 85 million), material expenses (down HRK 58 million), and write down of assets (down HRK 29 million), and partially offset by the increase in other expenses (up HRK 32 million) primarily due to the negative effect of higher licences and external employment costs partially offset by lower rental, consultancy and maintenance costs, and lower work performed by the company and capitalized (down HRK 14 million).

Excluding redundancy costs (2015: HRK 86 million vs 2014: HRK 138 million), employee benefits expenses decreased by HRK 85 million due to lower costs for wages and bonuses because of a lower number of FTEs, but was partially offset by higher rights from the new Collective agreement valid from 1 July 2014.

Material expenses decreased mainly because of lower telecommunication costs and copyright fees.

Net profit

Net profit after non controlling interests decreased by HRK 237 million to HRK 893 million in 2015 from HRK 1,131 million in 2014. This decrease was primarily a result of higher taxation (up HRK 176 million), lower EBITDA before exceptional items (down HRK 77 million), higher depreciation and amortization (up HRK 34 million) and lower net financial income (down HRK 16 million), partially offset by lower exceptional items (transformation related redundancy and consultancy costs, down by HRK 66 million).

6. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2015 made public, there were no material changes to the Group's risk profile in the period under review.

7. Group 2016 outlook

Revenue

Following a lengthy period of severe recession, Croatia's 2015 and 2016 GDP is forecast to show only modest growth, while high levels of unemployment still persist and adverse movements in both public debt and the budget deficit continue.

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

In light of the environment described above, with Optima Telekom now consolidated for the full 12 months of 2015 and 2016, alongside the contribution from growth areas within the Group, the Board expects 2016 revenue to decline slightly, within the range of 0% to -2%.

EBITDA before exceptional items

The economic environment and revenue trends outlined above, along with further changes in the revenue structure, will impact EBITDA accordingly. However, the Group's continued focus on transformation initiatives will help maintain a high level of profitability, and consequently the Board expects an EBITDA margin in 2016 of around 40%.

Investments

As previously announced, total Group investments for 2015 amounted to HRK 1,463 million, which represents a one-off increase of around 35% compared to 2014.

This was mainly due to 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.

In particular, the Group invested significantly in infrastructure in 2015, with an emphasis on fixed and mobile broadband, and, as previously discussed, achieved its year-end 2015 targets of household coverage by Next Generation Access (NGA) >30Mbps fixed broadband of around 50% and LTE (4G) indoor coverage of around 60% of the population.

In 2016, the Group plans to continue significant investment; these will be moderately lower than in 2015 but above HT's long term average of approximately HRK 1.1 billion

8. HT Group Financial statements

8.1 Consolidated Income Statement

in HRK million (IFRS)	Q4 2014	Q4 2015	<i>change</i>	Jan-Dec 2014	Jan-Dec 2015	<i>change</i>
Voice revenue	635	565	-10.9%	2,700	2,324	-13.9%
Non voice revenue	672	654	-2.7%	2,804	2,745	-2.1%
Other service revenue ¹⁾	201	214	6.5%	691	787	13.8%
Terminal equipment	80	110	36.5%	298	331	11.0%
Miscellaneous ¹⁾	178	186	4.3%	414	733	76.9%
Revenue	1,766	1,729	-2.1%	6,908	6,919	0.2%
Other operating income	39	35	-10.4%	124	98	-21.2%
Total operating revenue	1,806	1,764	-2.3%	7,032	7,017	-0.2%
Operating expenses	1,099	1,066	-3.0%	4,391	4,326	-1.5%
Material expenses	508	520	2.3%	1,947	1,982	1.8%
Merchandise, material and energy expenses	316	355	12.4%	1,165	1,272	9.1%
Services expenses	192	164	-14.2%	782	710	-9.1%
Employee benefits expenses	215	250	16.3%	1,128	1,023	-9.3%
Other expenses ²⁾	371	321	-13.5%	1,311	1,342	2.4%
Work undertaken by the Group and capitalised	-23	-34	-49.7%	-90	-88	1.7%
Write down of assets	28	9	-66.6%	95	67	-29.7%
EBITDA	707	699	-1.1%	2,641	2,691	1.9%
Depreciation and amortization ²⁾	403	418	3.7%	1,416	1,492	5.4%
EBIT	303	281	-7.5%	1,225	1,199	-2.2%
Financial income	12	12	-2.6%	36	53	49.4%
Income/loss from investment in joint ventures	2	-7	-452.8%	14	4	-72.6%
Financial expenses ²⁾	25	12	-52.3%	89	88	-1.6%
Profit before taxes	293	273	-6.6%	1,185	1,168	-1.5%
Taxation	-131	50	138.0%	47	227	379.6%
Net profit	424	224	-47.2%	1,138	941	-17.3%
Non controlling interest	-2	30	1455.7%	-4	16	468.0%
Net profit after non controlling interest	426	194	-54.4%	1,142	925	-19.1%
Exceptional items ³⁾	37	4	-89.4%	152	91	-39.8%
EBITDA before exceptional items	744	703	-5.5%	2,793	2,783	-0.4%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -64 million) to Other service revenue (HRK +64 million) was made for 2014

2) Other expenses, Depreciation and amortization, as well as Financial expenses are restated for 2014 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs in 2015

3) Exceptional items in Jan-Dec 2015 refer to redundancy costs totalling HRK 91 million. Exceptional items in 2014 refer to redundancy costs totalling HRK 138 million and transformation consultancy costs totalling HR 14 million.

8.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2014	At 31 Dec 2015	Change
Intangible assets ¹⁾	1,722	1,651	-4.1%
Property, plant and equipment	5,577	5,616	0.7%
Non-current financial assets	735	1,033	40.6%
Receivables	121	98	-18.9%
Deferred tax asset	51	46	-9.3%
Total non-current assets	8,206	8,443	2.9%
Inventories	115	104	-9.5%
Receivables	1,525	1,215	-20.3%
Current financial assets	1,539	869	-43.5%
Cash and cash equivalents	2,192	3,175	44.8%
Prepayments and accrued income	264	272	3.0%
Total current assets	5,635	5,636	0.0%
TOTAL ASSETS	13,841	14,079	1.7%
Subscribed share capital	8,883	9,823	10.6%
Reserves	409	445	8.6%
Revaluation reserves	2	4	100.8%
Retained earnings	673	268	-60.1%
Net profit for the period	1,142	925	-19.1%
Non controlling interest ¹⁾	166	177	6.4%
Total issued capital and reserves	11,276	11,641	3.2%
Provisions	71	68	-4.2%
Non-current liabilities ¹⁾	533	443	-16.9%
Deferred tax liability	50	45	-10.7%
Total non-current liabilities	654	556	-15.1%
Current liabilities ¹⁾	1,764	1,775	0.7%
Deferred income	111	103	-7.4%
Provisions for redundancy	35	4	-88.3%
Total current liabilities	1,910	1,882	-1.5%
Total liabilities	2,564	2,438	-4.9%
TOTAL EQUITY AND LIABILITIES	13,841	14,079	1.7%

1) Intangible assets, Non controlling interests, Non-current and Current liabilities are restated for 2014 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs in 2015 and reclassification coming from Optima

8.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Jan-Dec 2014	Jan-Dec 2015	change
Profit before tax	1,185	1,168	-1.5%
Depreciation and amortization	1,416	1,492	5.4%
Increase / (decrease) of current liabilities	159	13	-91.7%
(Increase) / decrease of current receivables	-98	-6	93.9%
(Increase) / decrease of inventories	1	11	737.0%
Other cash flow increases/ decreases	-368	-312	15.2%
Net cash inflow/outflow from operating activities	2,295	2,367	3.1%
Proceeds from sale of non-current assets	13	25	94.3%
Proceeds from sale of non-current financial assets	3	2	-44.2%
Interest received	16	18	14.6%
Dividend received	17	0	-100.0%
Other cash inflows from investing activities	1,585	2,411	52.1%
Total increase of cash flow from investing activities	1,633	2,455	50.3%
Purchase of non-current assets	-939	-990	-5.4%
Purchase of non-current financial assets	-243	-384	-58.1%
Other cash outflows from investing activities	-1,670	-1,639	1.8%
Total decrease of cash flow from investing activities	-2,852	-3,012	-5.6%
Net cash inflow/outflow from investing activities	-1,218	-557	54.3%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	-16	-43	-161.2%
Dividends paid	-736	-573	22.1%
Repayment of finance lease	-7	-4	37.6%
Other cash outflows from financing activities	-171	-212	-24.0%
Total decrease in cash flow from financing activities	-930	-832	10.5%
Net cash inflow/outflow from financing activities	-930	-832	10.5%
Exchange gains/losses on cash and cash equivalents	6	5	-7.7%
Cash and cash equivalents at the beginning of period	2,039	2,192	7.5%
Net cash (outflow) / inflow	152	983	544.7%
Cash and cash equivalents at the end of period	2,192	3,175	44.8%

Note: 2014 Cash flow restated, changes were made on Net cash inflow/ outflow from operating activities and Net cash inflow/ outflow from financing activities due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI)

8.4 Consolidated EBITDA reconciliation

in HRK million	Q4 2014	Q4 2015	<i>change</i>	Jan-Dec 2014	Jan-Dec 2015	<i>change</i>
Segment Result (Contribution to EBITDA)						
Residential Segment	662	636	-3.9%	2,687	2,611	-2.8%
Business Segment	324	317	-2.2%	1,393	1,353	-2.9%
Network and Support Functions ¹⁾	-310	-307	1.1%	-1,411	-1,406	0.3%
Segment Optima Telekom Consolidated	68	56	-17.1%	123	224	82.3%
Total Contribution to EBITDA before SI of the Segments	744	703	-5.5%	2,793	2,783	-0.4%
Special influences	37	4	-89.4%	152	91	-39.8%
Total EBITDA	707	699	-1.1%	2,641	2,691	1.9%

1) Network and Support Functions are restated for 2014 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs in 2015

8.5 Group's revenue breakdown under former reporting structure

in HRK million	Q4 2014	Q4 2015	<i>change</i>	Jan-Dec 2014	Jan-Dec 2015	<i>change</i>
Mobile	699	682	-2.4%	2,805	2,731	-2.6%
Fixed Telephony	288	247	-14.0%	1,213	1,050	-13.5%
Wholesale	76	89	17.1%	393	339	-13.7%
IP Revenue	392	381	-2.7%	1,577	1,546	-2.0%
Data	20	21	5.8%	83	84	0.5%
ICT	167	184	10.2%	564	659	16.8%
Miscellaneous	117	110	-6.1%	255	455	78.4%
Energy	7	13	85.6%	12	47	301.6%
Other non telco services	0	0	-12.0%	5	9	77.4%
Revenue	1,766	1,729	-2.1%	6,908	6,919	0.2%

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

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

The management report for the year 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

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

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

Zagreb, 24 February 2016

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