



Zagreb – 28 April 2016

Hrvatski Telekom Results for the three months ended 31 March 2016

Hrvatski Telekom business: First quarter marked by increased revenue and stable EBITDA

Hrvatski Telekom (Reuters: HT.ZA; Bloomberg: HTRA CZ), Croatia's leading telecommunications provider, announces its results for the three months ended 31 March 2016.

In the first three months, Hrvatski Telekom saw revenue increase by 3.4 % compared to the same period of the previous year; revenue amounted to HRK 1.67 billion, which is mainly the result of increased revenue from the ICT business segment, of good results in the energy business, as well as of increased sales of mobile handsets. EBITDA before exceptional items is stable at HRK 627 million, which is a decline by 0.1 per cent year-on-year, at an EBITDA margin of 37.5 per cent. The EBITDA margin declined by 1.3 p.p. in comparison to the same period last year, due to increased revenue from segments with a lower profit margin and increased investment in market activities. Net profit in the first quarter of 2016 amounts to HRK 136 million.

Customer orientation and innovative service offerings

At Hrvatski Telekom, the first quarter of the current year was marked by customer-oriented activities, innovative service offerings, and continued investment in infrastructure.

After having invested HRK 1.47 billion in infrastructure development in the year 2015, Hrvatski Telekom continues to make substantial investments in three key areas – development of the mobile and fixed infrastructure and increased broadband Internet access capacity. In comparison to the first quarter of last year, capital investment increased by HRK 41 million, or 15.2 per cent.

By the end of Q1 2016, 4G network indoor coverage reached 66 per cent of the population, while population outdoor coverage was 94 per cent. Moreover, in urban areas, speeds were increased from up to 225 Mbit/s to up to 262.5 Mbit/s. In the fixed network, fibre optic access was enabled for more than 184 thousand households.

The first quarter of 2016 of Hrvatski Telekom's business also saw the launch of a new, unique concept of service offering on the Croatian telecommunications market – Magenta 1. The offer aims to reward the loyalty of existing customers and to attract new ones, while highlighting the advantages of integration of all services at Hrvatski Telekom. This offer includes a premium customer experience paired with a range of unique benefits, which has met with great interest both of business and residential customers.

In 2016 as well, the HorizonT strategic programme continues at HT, which is mainly aimed at increased efficiency, improved business operations of the Company, and further growth and

development of business. The first quarter also saw the completion of the surplus management programme resulting in 240 employees leaving the Company.

Commenting on the business results of the first quarter, **Davor Tomašković, President of the Management Board of Hrvatski Telekom**, pointed out: *“We are satisfied with the results achieved in the first quarter that was marked by increased revenue and stable EBITDA, and we maintain our announced financial outlook for the entire year 2016. In the forthcoming months of the year, we will continue to focus on investment, improvement of customer experience, and innovation in our product and service offerings, as well as on a strict cost discipline. The recently launched, new service concept Magenta 1 is unique on the Croatian market; thanks to its innovative nature, it was very well received by our customers. Along with the further development of such innovative products, we will also continue to further invest in infrastructure development and in our technological superiority, which forms the basis for premium service offers and the best customer experience.”*

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

The conference call dial in details are as follows:

International Dial In	+44 (0) 1452 555 566
UK Free Call Dial In	0800 694 0257
Conference ID	96950358

A replay of the call will be available until Wednesday, 4 May 2016 using the following details:

International Dial In	+44 (0)1452 550 000
UK Free Call Dial In (from landlines only)	0800 953 1533
Conference ID	96950358

A presentation covering results for the first three months of 2016 can be downloaded from the HT web site (www.t.ht.hr/eng/investors/).

1. Review

1.1 Introduction

HT Group's good performance in Q1 2016

HT Group has successfully responded to market challenges and maintained its leading position in the Croatian telecommunications market across all business segments in the first quarter of 2016, in the face of tough competitive pressure.

1.2 Market overview

All mobile operators have 4G offers; broadband and Pay TV continue to grow

Croatian mobile market has been determined by strong competition and regulatory measures that impact mobile revenue.

Mobile SIM penetration rate is estimated to be 112.6% at the end of March 2016. HT managed to keep the leading market share of total mobile customers with an estimated amount of 47.0% (measured at the end of March 2016).

Mobile customers are increasingly using smartphones and this leads to the increasing usage of different content and OTT services. Now all three mobile operators are offering 4G services with favourable data packages and attractive smartphones and tablets.

Such market drivers have an impact on the trends of voice, messaging and data services.

Total Croatian mobile market minutes of use (MOU) grew by 2.0% yoy in 2015 while the total number of sent SMS messages continued to decrease on annual basis by 9.4% in 2015.¹

Amount of fixed originating voice minutes declined by 12.7% yoy in 2015. Total broadband traffic grew by 26.6% in 2015 compared with total traffic in 2014.¹

According to the Croatian Post and Electronic Communications Agency there were more than 986 thousand fixed broadband connections in use at the end of 2015. Croatian fixed broadband market continued the positive trend with a yearly increase of 3.6% in 2015.¹

HT Group has set a strong focus on further development of the network infrastructure, increasing broadband access capacity and availability to maintain a leading position as the largest fixed broadband operator in Croatia. HT Group had 601 thousand of broadband access lines at the end of March 2016.

¹ Source: Croatian Post and Electronic Communications Agency

The Croatian Pay TV market is a highly competitive and still growing market. Pay TV market grew by 3.2% yoy in Q4 2015 reaching 767 thousand customers. The leading Pay TV technology in Croatian Pay TV market is IPTV, although DTT has the highest growth rate compared to Q4 2014 (+28.2%).²

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in Q1 2016 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 115 thousand at the end of March 2016 what was increase of 40.8% compared to end of March 2015. Due to high churn and migration to broadband services, number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing which resulted with 156 thousand of ULL access and 101 thousand of WLRs at the end of March.

IT market

According to preliminary data from IDC Adriatics³, Croatian IT market grew by 10.8% in 2015. All segments of Croatian IT market grew in 2015. The strongest growth is recorded in Hardware (16.0%), followed by IT services (5.7%) and Packaged Software (4.2%).

HT Group is positioned in all three segments by providing standard and customized services with strategic focus on Cloud and Managed services.

Energy market

Power energy retail market is, in general, still unsaturated as only 15% on customers (volume-wise) switched suppliers from dominant one. The overall market is decreasing by 1.5% yoy basis because of lower consumption due to financial crisis as well as energy efficiency enhancement.

Due to still dominant market share held by an incumbent, HT sees ample opportunities to grow focusing on convergent products.

1.3 Economic background

A slight growth of the Croatian economy continues

Croatian GDP grew by 1.9% on a yearly basis in Q4 2015 due to a strong growth of foreign demand. In 2015 Croatia had a positive annual growth rate of 1.6% for the first time since 2008.²

⁴ Source: Croatian Bureau of Statistics

The labour market continues to show positive trends of recovery with the registered unemployment rate of 17.8% in February 2016, which shows a decrease by 1.8 pp. compared to February 2015.⁴

Reported average net income for January 2016 amounted to HRK 5,646 which is 1.6% higher compared to January 2015.⁴ Average annual inflation rate in February 2016, calculated by Consumer Prices Index (CPI), was -1.4%.⁴

1.4 Regulatory environment

Determining the reasonable return on investment rate (WACC)

A public consultation conducted by the Croatian Regulatory Authority for Network Industries (HAKOM) concerning a decrease in the weighted average cost of capital (WACC) rate in order to implement the regulatory obligation of price control and cost accounting management in mobile and fixed network was finished on 7 March 2016. HT submitted its comments during the public consultation.

Determining the monthly fee for the fully unbundled local loop (ULL) service on the basis of a copper pair

A public consultation conducted by HAKOM concerning the proposal to reduce the monthly fee (price) for ULL based on BU-LRAIC+ cost model was finished on 18 March 2016. HT submitted its comments during the public consultation.

1.5 Changes in reporting

Optima Telekom

In 2014 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. Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima Telekom, among which is the implementation of so called “Chinese wall” between Optima Telekom’s and HT employees involved in Optima Telekom’s business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Respectively 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 voluntarily changed its accounting policy in 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 effects of the accounting policy change on financial information for 2015 are recognized at year end, respectively restatement of financial data for the first quarter of 2015 was done as follows: EBITDA before EI increase of HRK 6 million, increase in Capex of HRK 19 million and increase in cash flow from operating activities of HRK 6 million.

1.6 Summary of key financial indicators

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Revenue	1,619	1,673	3.4%
Mobile	623	655	5.1%
Fixed voice	283	247	-12.9%
Broadband & TV	334	324	-2.9%
Fixed wholesale	73	85	16.2%
Other fixed	178	177	-0.8%
System solutions	114	165	45.3%
Miscellaneous	14	21	53.9%
EBITDA before exceptional items	628	627	-0.1%
Exceptional items	73	59	-18.8%
EBITDA after exceptional items	555	568	2.4%
EBIT (Operating profit)	193	219	13.8%
Net profit after non controlling interests	151	136	-10.1%
EBITDA margin before exceptional items	38.8%	37.5%	-1.3 p.p.
EBITDA margin after exceptional items	34.3%	33.9%	-0.3 p.p.
EBIT margin	11.9%	13.1%	1.2 p.p.
Net profit margin	9.3%	8.1%	-1.2 p.p.
Balance Sheet	At 31 Dec 2015	At 31 Mar 2016	% of change A16/A15
Total non current assets	8,444	8,366	-0.9%
Total current assets	5,636	5,770	2.4%
TOTAL ASSETS	14,079	14,136	0.4%
Total issued capital and reserves	11,641	11,788	1.3%
Total non current liabilities	556	576	3.7%
Total current liabilities	1,882	1,771	-5.9%
TOTAL EQUITY AND LIABILITIES	14,079	14,136	0.4%

Cash flow	Q1 2015	Q1 2016	% of change A16/A15
Net cash flow from operating activities	426	575	35.0%
Net cash flow from investing activities	553	1	-99.7%
Net cash flow from financing activities	-68	-69	-1.2%
Cash and cash equivalents at the end of period	3,111	3,654	17.4%
CAPEX	272	314	15.2%
CAPEX / Revenue ratio	16.8%	18.8%	1.9 p.p.
	At 31 Dec 2015	At 31 Mar 2016	% of change A16/A15
ROE	1.3%	1.2%	-0.2 p.p.
ROCE	1.6%	1.8%	0.2 p.p.
Number of employees (FTEs)	4,985	4,488	-10.0%

RESIDENTIAL SEGMENT

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Revenue	921	914	-0.8%
Contribution to EBITDA before exceptional items	640	624	-2.5%

BUSINESS SEGMENT

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Revenue	593	651	9.9%
Contribution to EBITDA before exceptional items	296	305	2.8%

NETWORK & SUPPORT FUNCTIONS

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Contribution to EBITDA before exceptional items	-361	-355	1.6%

SEGMENT OPTIMA CONSOLIDATED

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Revenue	105	108	3.2%
Contribution to EBITDA before exceptional items	52	54	2.2%

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Three months to 31 Mar 2015	7.68	7.64	6.82	7.05
Three months to 31 Mar 2016	7.62	7.52	6.91	6.65

2. Business Review

Key operational data	Q1 2015	Q1 2016	% of change A16/A15
Mobile customers in 000			
Number of customers	2,214	2,206	-0.4%
- Prepaid	1,116	1,087	-2.6%
- Postpaid	1,098	1,119	1.9%
Minutes of use (MOU) per average customer	187	196	4.9%
Blended ARPU (monthly average for the period in HRK)	73	74	1.9%
- Prepaid	40	40	0.0%
- Postpaid	107	108	1.0%
SAC per gross add in HRK	104	102	-2.2%
Churn rate (%)	2.6	2.6	0.0 p.p.
Penetration (%) ¹⁾	113	113	-0.2 p.p.
Market share of customers (%) ¹⁾	47	47	0.3 p.p.
Smartphone customers (%) ²⁾	44	55	11.3 p.p.
Smartphones sold (%) ³⁾	74	80	6.0 p.p.

1) Internal estimation

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	Q1 2015	Q1 2016	% of change A16/A15
Fixed mainlines in 000			
Fixed mainlines - retail ¹⁾	1,027	955	-7.0%
Fixed mainlines - wholesale (WLR - wholesale line rental)	112	101	-9.6%
ARPU voice per user (monthly average for the period in HRK) ²⁾	91	86	-6.1%
IP mainlines/customers in 000			
Broadband access lines - retail ³⁾	607	601	-0.9%
Broadband access lines - wholesale ⁴⁾	82	115	40.8%
TV customers	390	387	-0.7%
Broadband retail ARPA (monthly average for the period in HRK)	124	121	-2.6%
TV ARPU (monthly average for the period in HRK)	80	81	1.3%
Wholesale customers in 000			
ULL (Unbundled Local Loop)	165	156	-5.4%

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

²⁾ Payphones excluded

³⁾ Includes ADSL, FTTH and Naked DSL

⁴⁾ Includes Naked Bitstream + Bitstream

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:

- Significant efforts taken to maintain position in the market
 - HT managed to keep the leading mobile market share with stable estimated portion of 47.1%
 - Several new products were launched to fight decline in fixed market
 - HT Group increasing broadband access capacity and availability to maintain a leading position as the largest fixed broadband operator in Croatia which has started to offer LTE throughput of 262,5 Mbp/s in selected areas

- The main financial KPIs stabilized and turned to growing
 - Revenue is above 1Q 2015 by HRK 54 million or 3.4% driven by growing system solution, mobile, fixed wholesale and energy business
 - EBITDA is stable comparing to 1Q 2015, only HRK 1 million or 0.1% below

- The strategic program Horizont, is continued in 1Q 2016.

- 2016 HCR program completed with 240 FTEs leavings

- Significant investment in network driven by integrated network strategy and regulatory demand
 - Capex is above 1Q 2015 by HRK 41 million or 15.2%
 - 4G population coverage increased from 65% at the end of 2015 to 66.4% at the end of 1Q 2016
 - Maximal LTE throughput increased from 225 Mbp/s to 262,5 Mbp/s
 - Optical access network FTTH access is enabled for 184 thousand households at the end of 1Q 2016

- New source of growing potential
 - ICT the strongest in the area of customized ICT solutions and IP communication
 - Energy is establishing as a sustainable business

- Strong marketing activities
 - Launch of Magenta 1 - unique concept of premium customer experience and benefits
 - Prepaid and postpaid segment with focus on additional value for HT customers
 - On-going MNP and retention efforts both in postpaid and prepaid segment
 - Further enrichment of Simpa "Zmajaska opcija" with 4G speed included for free
 - Ongoing promotion of MAX2/MAX3 packages with exclusive TV content and premium TV packages
 - Continuous promotion of Ultra MAX packages on FTTH

Mobile telecommunications

Mobile customer base decreased by 0.4%, to 2,206 thousand customers at the end of 1Q 2016 in comparison to 1Q 2015 mainly as a result of overall aggressive competitors offers on the market and decrease of customers with double SIM cards due to continuing trend of favorable flat and cross net offers. Decline was partially offset by launch of new mobile attractive tariffs "Najbolja" in second half of 2015 and growth in M2M and mobile internet.

Number of postpaid customers was higher by 1.9% than at the end of 1Q 2015 as a result of overall push of successful and attractive tariffs and handsets as well as mobile net offers.

At the end of March, HT presented its new unique concept of premium customer experience and benefits called Magenta 1 which offers HT private and business customers numerous free benefits such as TV packages, fastest internet speed, additional international and national minutes, discounts on mobile tariffs for all household, attractive smartphones including Samsung J3. Especially for business customers, business packages were launched, consisting of flat fixed and mobile service with highest available speeds, 4G backup and network security and Cloud storage of 1 Terabyte capacity.

The goal is to ensure complete services for the household and the best mobile and fixed services to all customers. All private customers will enter the Magenta 1 world immediately if they use HT's internet line in their household and at least one mobile HT line and will become a part of whole new world of special, custom-made offers and benefits.

In March, HT launched sales of Samsung Galaxy S7 and Samsung Galaxy S7 Edge, the new generation of Samsung's most popular smartphone. The phones are available in the "Najbolje" tariffs that include the highest 4G speed with the highest 4G coverage in Croatia.

Number of prepaid customers was 2.6% lower than in 1Q 2015 due to overall decline of prepaid market and strong competition. On-going MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the on-going decline.

New attractive media campaign and enriched promo offer was launched for Simpa "Zmajaska opcija" in 1Q 2016 - 4,000 units for HRK 59 monthly with 4G speed included for free. Simpa customers can choose how they want to spend 4,000 units, by combining minutes, SMS and GB. Campaign was accompanied by special offer with Microsoft Lumia 550 and 4G mobile speed up to 75 Mbit/s with highest coverage in Croatia.

Bonbon continued with bringing its customers additional value, this time through new media campaign "Moćni noćni paket" with additional number of minutes, messages and MB from 7pm to 7am for only HRK 10. Furthermore all customers are able to set their own combination of gadgets with additional discounts available. Among other well-known Bonbon benefits, new postpaid users are still able to get discounts on L and XL packages, 1,000 minutes and 1,000 SMS until 2020 and can set their spending limit according to their possibilities.

At the end of 1Q 2016, minutes of usage per average customer increased by 4.9% compared to the 1Q 2015 and it is in line with overall market trends of fixed to mobile substitution and free minutes included in tariff.

Blended ARPU increased by 1.9% compared to 1Q 2015 as a result of postpaid ARPU overachievement resulted from better tariff mix and good results of "Najbolje" tariffs.

Fixed line

By the end of 1Q 2016, total fixed access mainlines of 955 thousand were by 7.0% lower than at the end of 1Q 2015, but decrease is slowing down. Decline is driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition but HT further continues with pro - and reactive churn prevention offers and activities.

To mitigate the on-going decline promo offer for fixed line was introduced offering phone connection for HRK 1 with 24 MCD accompanied by new attractive fixed line tariffs.

Fixed voice ARPA decreased by 6.1% compared to 1Q 2015 as a result of mentioned general market trends and lower usage.

Broadband

At the end of 1Q 2016 broadband customer base was lower by 0.9% in the comparison to the end of 1Q 2015 reaching 601 thousand, due to strong competition and aggressive offers in the market.

At the same time broadband retail ARPA was 2.6% below 1Q 2015 at the level of HRK 121. To mitigate the decrease HT continues with push of MAX2/MAX3 packages and Ultra MAX packages on FTTH. The offer was accompanied by attractive promo options included in the price and MAXtv for all new Ultra MAX customers for HRK 1 for first 9 months of usage. These packages are based on FTTH technology which enables ten times higher speed than the standard ADSL. HT will continue to invest in the development of the fiber network and plans to expand the fiber optical internet zones.

1Q 2016 result was influenced by contribution of Smart office packages launched in Q4 2015 for small and medium business customers with high speed flat internet and fixed line, including antivirus protection, Business Connect application and possibility of 4G backup, making it unique and most reliable connection for business customers on Croatian market.

TV

TV customer base decreased by 0.7% in comparison to 1Q 2015 due to continuous aggressive competitors' bundle offers on the market. Continuous service and program offer improvements are being made which resulted with higher TV ARPU by 1.3% in comparison to 1Q 2015 driven by

premium content (additional program packages, video on demand etc.) and enriched exclusive TV content.

Moreover, HT continued with promotion of MAXtv package Pickbox which contains more than 70 hit series and 300 movies and covers the majority of Hollywood productions.

Satellite TV, which is an extension of classical IPTV service, continues to grow with further improvements in offerings providing more value for the customers and is expected to contribute significantly to the overall TV success. It continued with attractive promo offering 50% discount on Basic or Basic Extra package monthly fee for first 9 months for activations during promo period.

Wholesale

At the end of 1Q 2016 there were 156 thousands of active ULL lines, which was lower by 5.4% in comparison to the same period last year. Number of ULL lines decreased due to higher focus of alternative operators to broadband services.

Broadband wholesale access lines (DSL and naked DSL lines) reached 115 thousands, which was 40.8% above number of lines at the end of same period in 2015.

Number of WLR lines at the end of 1Q 2016 decreased by 9.6% and reached 101 thousands compared to the end of 1Q 2015 as a result of declining voice market. As a consequence of WLR offer, the number of “pure” CPS customers was reduced comparing to the same period last year.

Growth in number of ported numbers compared to last year is mainly connected with growth of NBSA services.

In 1Q 2016 successful sales continued in spite of competitive domestic wholesale market of data and IP services. Total sold capacities increased by 13.2% reaching 262 Gbp/s at the end of period. Especially successful was sale of IP upstream services with growth of 216% in volume comparing to the same period last year.

In the international wholesale market total capacity of sold IP and data services increased by 8.3% where only sales of IP services grew by 35.6% contributing to stability of international wholesale revenue.

Visitor roaming services are significant source of international wholesale revenue. Roaming traffic shows further growth in 2016, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 30.2% more voice originating minutes and 221.1% more data traffic than in the same period last year. At the same time, on the wholesale cost side, HT's mobile customers generated 9.0% more roaming voice traffic in foreign countries and 192.0% more data traffic. During 1Q 2016, 11 additional 4G (LTE) international roaming services with foreign partners were set up reaching 62 4G worldwide roaming interconnections in total.

Another 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 28.0% compared to the same period 2015. On the wholesale cost side, international outgoing traffic from HT fixed network users decreased by 12.6% and from HT mobile network users increased by 10.6%.

System solutions

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 the area of customized ICT solutions.

Focus continues to be on market education and customer experience to further strengthen leading position of HT Group on the market. The biggest projects were recorded in the banking, real and telecommunication sector in all production/service segments, but primarily in the IP communication and security, IT infrastructure and professional solutions segment.

Energy

Revenues from energy were higher by HRK 8 million or 71.3% when compared to 1Q 2015 due to higher number of customers by 29.5%. Growth is driven by efforts done to increase customer loyalty in 2016. Sales to key accounts increased in 1Q 2016 as a result of introduced bundle offers.

3. Group financial performance

3.1 Revenue

In order to maintain consistency with the 2016 year presentation of revenues in new structure, previous year items were reclassified for comparative purposes. The main revenue items used in the past for the revenue presentation: voice revenue, non voice revenue, other service revenue, terminal equipment revenue and miscellaneous revenue are changed to new categories: mobile revenue, fixed revenue, system solution revenue and miscellaneous. This change makes the financial data of HT Group more comparable with other market participants.

Total consolidated revenue increased by HRK 54 million or 3.4% to HRK 1,673 million in 1Q 2016 in comparison to 1Q 2015. Increase is driven by higher system solution revenue (HRK 51 million or 45.3%), mobile revenue (HRK 31 million or 5.1%) and miscellaneous revenue (HRK 7 million or 53.9%), but this increase is partially offset by decrease in fixed revenue (HRK 36 million or 4.2%).

Optima Telekom contribution to HT Group was in line with 1Q 2015 and amounted to HRK 75 million in 1Q 2016 and consisted of HRK 108 million of Optima Telekom third party contribution (1Q 2015: HRK

105 million) that was presented in the whole amount under fixed other revenue and HRK 34 million of inter-company relations that decreased mainly fixed wholesale revenue (1Q 2015: HRK 30 million).

Contribution of subsidiaries in Group revenue in 1Q 2016 amounted for Iskon HRK 94 million (1Q 2015: HRK 90 million) and for Combis HRK 116 million (1Q 2015: HRK 80 million).

Mobile revenue

Mobile revenue rose by HRK 31 million or 5.1% to HRK 655 million in 1Q 2016 in comparison to 1Q 2015. The growth resulted mainly from higher handset revenue, postpaid revenue and other mobile revenue, while prepaid revenue decreased.

From total deviation, HRK 33 million or 8.2% came from residential segment, while business segment contributed negatively.

The handset revenue growth was driven by the increased sales volume of smartphones, higher number of contract prolongations taking handsets and higher share of more valuable handsets mainly in residential segment additionally supported by growing convergent offers.

Postpaid revenue increased primarily due to higher mobile data revenue as both number of subscriber and usage increased as a result of continuous substitution trend of traditional voice and SMS services with data, higher number of data traffic included in tariff bundles and increasing share of customers having smartphones. Tariffs "Najbolje" introduced in 2015 contributed to higher data revenue with focus on 4G network services included in tariffs.

MTC revenue increased as a result of deregulation of non EU international termination rate from April 2015. Rate was increased from 0.063 HRK/min in 1Q 2015 to 1.73 HRK/min in 1Q 2016.

This revenue increase was offset by decline in voice revenue due to fierce price competition.

Prepaid revenue decrease was a result of lower MTC and retail revenue. Decrease in MTC revenue (HRK 2 million or 8.4%) came from lower usage. The retail prepaid was lower due to lower customer base that resulted with lower voice and SMS revenue. Revenue decline was partially compensated by mobile data growth as a result of continuous promotional offers with focus on data traffic and 4G speed (Bonbon "Moćni noćni" package and Simpa "Zmajaska opcija").

Fixed revenue

Fixed revenue dropped by HRK 36 million or 4.2% to HRK 832 million in 1Q 2016 in comparison to 1Q 2015. The fall resulted mainly from lower voice revenue, broadband revenue, terminal equipment revenue and other fixed revenue but it was partially compensated by higher wholesale revenue and data communication revenue.

In Q1 2016, fixed line voice retail revenue decreased in comparison to Q1 2015 mainly as a result of continuous decline in the number of revenue producing fixed mainlines due to ongoing fixed to mobile substitution trend coming from strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment. Consequently, number of minutes dropped and ARPA voice per access declined by 6.1%. ARPA decline is a result of more low value residential customers using fixed voice services (mostly elderly population). To slow down erosion of customer base, pro- and reactive churn prevention actions are taken. In residential segment new attractive fixed line tariffs were introduced, accompanied with phone connection for HRK 1 with 24 MCD. In business segment, new packages (Smart Office) are introduced in order to ensure stable customer base development.

Decrease in broadband revenue was a result of lower broadband customer base and lower broadband retail ARPA. ARPA decline in residential segment is mainly a result of bundling with other fixed services and higher usage of flat packages. To mitigate customer base decline, HT continues with push of MAX2/MAX3, Ultra MAX on FTTH in residential segment. In business segments new Smart Office packages were introduced in Q4 2015 with high speed flat internet.

Other fixed revenue decrease was driven by lower installation revenue and value added services due to lower number of acquired customers and overall customer base decline. This decline was partially offset by higher contribution of Optima consolidated segment.

Fixed wholesale revenue increased mainly due higher voice and network infrastructure revenue while IP and data services decreased. Fixed wholesale voice increase was mainly driven by deregulation of international termination prices from non EU countries from April 2015 (price was increased from 0.006 HRK/min in 1Q 2015 to 0.60 HRK/min in 1Q 2016). Network infrastructure revenue was higher due to NBSA growth while IP and data services decreased due to lower prices.

TV revenue was in line in comparison to the same period last year despite lower TV customer base by 0.7% as a consequence of TV market saturation with various service providers and lower spending power of households that are optimizing costs by switching to free to air DVB-T channels. TV ARPU was higher by 1.3% driven by continuous service and program offer improvement, premium content (additional program packages, video on demand etc.) and enriched exclusive TV content with promotion of MAXtv Pickbox package.

System Solutions

System solution stream is becoming significant source of HT Group revenue growth. System solution revenue increased by HRK 51 million or 45.3% to HRK 165 million in 1Q 2016 in comparison to 1Q 2015.

Higher Combis contribution as a result of higher realization in all segments, but primarily in IP communication part mostly in network and security projects in banking and telco business referring to equipment and services. IT infrastructure part also recorded significant growth. HT Inc contributed to growth mostly in sale of ICT equipment, licenses, specific IP communication and safety equipment, enterprise software/professional solutions, but also in providing consulting services.

Miscellaneous revenue

Miscellaneous revenue increased by HRK 7 million or 53.9% to HRK 21 million in 1Q 2016 in comparison to 1Q 2015.

Increase in miscellaneous revenue mainly comes from energy business due to higher customer base. Continued efforts are being undertaken to increase customer loyalty.

Other operating income

Other operating income increased by HRK 20 million or 89.0% compared to 1Q 2015 mainly as a result of higher sale of fixed assets mainly coming from sale of lands in Rijeka and Požega as well as sale of vehicles, and commitment write off related to obligation for antenna poles retirement.

3.2 Operating expenses

Total consolidated operating expenses increased by HRK 61 million or 5.6% to HRK 1,147 million in 1Q 2016.

This increase was a result of higher material expenses and other expenses compensated with lower employee benefits expenses and write down of assets.

Excluding redundancy costs of HRK 59 million (1Q 2015: HRK 73 million), operating expenses increased by HRK 75 million or 7.4% to HRK 1,087 million in 1Q 2016.

Material expenses

Material expenses increased to HRK 509 million in 1Q 2016 as a result of higher merchandise, material and energy expenses and services expenses.

Merchandise costs increase was mainly driven by higher system solution merchandise that is in line with system solution revenue growth and mobile merchandise while fixed merchandise was lower compared to 1Q 2015.

Mobile merchandise cost increase was mainly driven by residential segment as a result of increased sales volume of smartphones, higher number of contract prolongations taking handsets and higher share of more valuable handsets additionally supported by growing convergent offers. Fixed merchandise decrease is a result of lower focus on fixed only services.

Increase of energy sales costs is in line with energy revenue growth.

Increase in cost of raw material and supplies is related to engagement of additional agency technicians (purchase of protective work clothes and work material) and fixed broadband rollout.

Services expenses increased to HRK 176 million in 1Q 2016 and it was driven by higher international telecommunication costs and online costs that was offset by lower domestic telecommunication costs and copyright fees.

Telecommunication cost increased mainly due to deregulation of international termination prices from non EU countries from April 2015.

Online costs increase was mainly related to increase of ICT standard portfolio following revenue development.

Lower copyright fees were caused by higher share of capitalized content rights contracts and lower number of TV customers by 0.7%.

Employee benefits expenses

Total employee benefits expenses decreased to HRK 289 million in 1Q 2016 as a result of lower redundancy costs and slightly lower personnel costs.

Number of FTE decreased from 4,985 in 1Q 2015 to 4,488 in 1Q 2016 mainly due Headcount Restructuring program partially compensated by new employments.

Other expenses

Other expenses increased to HRK 347 million in 1Q 2016 mainly due to higher external employment costs, consultancy costs and selling commissions that were compensated by lower maintenance costs.

Increase in external employment cost mainly came from additional engagement of agency technicians, as well as additional sales activities in residential segment.

Increase in selling commissions come from higher share of indirect sales channel (door2door and telesales activities).

Decrease in maintenance was a result of lower cost in network due to better conditions negotiated with vendors.

Write down of assets

The assets write down decreased by 7 million or 31.3% to HRK 14 million in 1Q 2016 mainly due to lower value adjustment of receivables. This decrease was mainly driven by residential segment both in mobile and fixed part. Drop was partially offset with increase in business segment mostly due to better

collection of value adjusted receivables in retail part in 1Q 2015 and receivables value adjustment related to Metronet in wholesale part in 1Q 2016.

Depreciation and amortization

Depreciation and amortization were lower than in 1Q 2015 by HRK 13 million or 3.7% mainly due to lower amortization of software licences.

3.3 HT Group profitability

EBITDA before exceptional items

EBITDA before exceptional items slightly decreased by HRK 1 million or 0.1% to HRK 627 million in 1Q 2016. This slight decline was a result of higher operating expenses excluding exceptional items (HRK 75 million or 7.4%) primarily driven by costs related to growing system solution business, and partially compensated by higher revenue (HRK 54 million or 3.4%) driven by system solution and other operating income (HRK 20 million or 89.0%).

Optima Telekom contribution to 1Q 2016 Group EBITDA was slightly lower by HRK 1 million than in 1Q 2015.

It amounted to HRK 23 million (1Q 2015: HRK 25 million) and consisted of HRK 54 million of Optima Telekom third party contribution (1Q 2015: HRK 52 million) and HRK 30 million of inter-company relations (1Q 2015: HRK 28 million).

Net profit after non controlling interests

In comparison to 1Q 2015, consolidated net profit after non controlling interests decreased by HRK 15 million or 10.1% to HRK 136 million in 1Q 2016. Except lower EBITDA contribution, net profit after non controlling interest decreased due to higher financial expenses and non-controlling interests that were partially offset by lower exceptional items, lower depreciation and amortization, lower taxation and higher financial income.

Negative contribution of financial expenses by HRK 41 million mainly due to net negative exchange rate differences coming from EUR exchange rate decline.

Optima Telekom contributed to HT Group net profit by loss of HRK 1 million (1Q 2015: loss of HRK 2 million).

3.4 Balance sheet

Total value of assets remained stable in comparison to end of year 2015.

Total issued capital and reserves increased from HRK 11,641 million at 31 December 2015 to HRK 11,788 million at 31 March 2016 because of realized net profit for 1Q 2016 in the amount of HRK 136 million.

Total current liabilities decreased by HRK 111 million to HRK 1,771 million at 31 March 2016 mainly due to the settlement of higher payables for capital expenditures at 2015 year end.

3.5 Cash flow

Cash flow from operating activities is Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

Compared to Q1 2015, net cash flow from operating activities increased by HRK 149 million or by 35.0% mainly due to better working capital management and lower tax paid compared to Q1 2015.

Net cash flow from investing activities decreased by HRK 552 million or by 99.7% as a result of significant lower maturity of financial assets (mostly time deposits and REPO arrangements) and higher Capex paid in Q1 2016 compared to Q1 2015.

Net cash flow from financing activities decreased by HRK 1 million or by 1.2%. In Q1 2016 repayments for content and ECI were in line with Q1 2015.

3.6 Capital expenditure

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
HT Group	272	314	15.2%
Capex / Revenue ratio	16.8%	18.8%	1.9 p.p.

Capital expenditure realization of HRK 314 million in Q1 2016 was higher by 15.2% or HRK 41 million than realization in the same period of 2015 mainly due to investment resulted from integrated network strategy.

INS (Integrated Network Strategy) program includes fixed and mobile network development through increase of NGA data speeds (min 30 Mbp/s) and extension and LTE coverage. The results are expanding of fiber optic access network (FTTH) in already built zones and through building of new zones, with deployment of FTTC/B (Fiber to the Cabinet/Building) model with vectoring which will enable future increase of speeds. By the end of 1Q 2016, FTTH access is enabled for 184k households.

Mobile broadband deployment continued to increase coverage, capacity and performance. 4G download throughput has been increased up to 225 Mbp/s in 23 cities and up to 262.5 Mbp/s in 5 smaller cities. Total 4G population coverage indoors increased to 66.4% (outdoors: 94%).

Next TV, legacy TV platform replacement project with a unified converged platform, will add quality and expand MAXtv service portfolio. Hardware have been installed and configured and integration is ongoing.

Modernization and redesign of DNS Cache server has done as completely in-house technical solution: hardware modernized, capacity extended, georedundancy implemented and consolidation of fixed and mobile systems is done, assuring future seamless capacity extensions. Modernization of database for mobile customers has been done within SDM OneNDS 9.0 project, assuring further development of one converged database for all HT customers, fixed and mobile.

In IT area activities were focused on technology realization of “digital company” business model and “on-line” business model transformation to enable further digitalization and ensure overall company cost optimization.

In cyber and data security, HT proceeds to improve security of products and services. In final phase is process of PCI DSS certification and renewal of ISO 27001:2013 certificate is started. In parallel with the improvements, further consolidation of service platforms is under realization (modernizing of central user AAA databases intended for provisioning, authentication, authorization and collection of traffic data).

4. Overview of segment profitability

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

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

The Business business unit (BBU) includes marketing, sales and customer care activities, focused on providing mobile and fixed line telecommunications, energy, system integration services to corporate

customers, small and medium business and public sector. In addition, BBU is responsible for wholesale business for both, fixed and mobile services.

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

Companies in the HT's full ownership Iskon, Combis, KDS and E-tours are part of above mentioned segments, following the same structure as Mother Company.

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

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

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

4.1 Residential Segment

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Mobile revenue	411	444	8.2%
Fixed revenue	500	460	-8.1%
System solutions	0	0	-
Miscellaneous	10	10	-2.0%
Revenue	921	914	-0.8%
Operating expenses	281	289	3.1%
Contribution to EBITDA before exceptional items	640	624	-2.5%

4.2 Business Segment

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Mobile revenue	212	210	-0.9%
Fixed revenue	263	264	0.5%
System solutions	114	165	45.3%
Miscellaneous	4	11	200.4%
Revenue	593	651	9.9%
Operating expenses	296	346	16.9%
Contribution to EBITDA before exceptional items	296	305	2.8%

4.3 Network and support functions

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Other operating income	21	41	95.1%
Operating expenses ¹⁾	382	397	3.7%
Contribution to EBITDA before exceptional items	-361	-355	1.6%

¹⁾ Operating expenses are restated for 1Q 2015 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs at 2015 year end

4.4. Segment Optima Telekom consolidated

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Fixed revenue	105	108	3.2%
Revenue	105	108	3.2%
Other operating income	1	0	-52.3%

Operating expenses	53	55	3.2%
Contribution to EBITDA before exceptional items	52	54	2.2%

5. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue increased by HRK 20 million or 1.4% to HRK 1,415 million in Q1 2016 when compared to Q1 2015. Increase was driven by higher mobile revenue (HRK 35 million or 5.6%) coming from mobile data and handset revenues, system solution revenue (HRK 14 million or 40.2%) and miscellaneous revenue (HRK 8 million or 71.3%) coming from energy business. This increase was partially compensated with decrease in fixed revenue (HRK 37 million or 5.1%) mostly resulting from lower voice and broadband revenues compensated by higher wholesale revenue.

EBITDA before exceptional items

EBITDA before exceptional items increased by HRK 1 million or 0.2% to HRK 579 million in Q1 2016, mainly as a result of higher revenue (HRK 20 million or 1.4%) and higher other operating income (HRK 21 million or 104.0%) driven by sales of fixed assets and write down of commitments. This increase was partially compensated by higher operating expenses (HRK 39 million or 4.6%) driven mainly by higher merchandise costs related to growing system solution business and retention activities taken in mobile segment.

Net profit after non controlling interests

Net profit after non controlling interests decreased by HRK 16 million or 10.8% to HRK 133 million in Q1 2016. This decrease was primarily a result of higher financial expenses mainly related to negative exchange rate differences and lower financial income, partially compensated by lower personnel redundancy costs, lower depreciation and amortization, lower taxation and higher EBITDA before exceptional items.

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 unchanged

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 1,473 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)	Q1 2015	Q1 2016	% of change A16/A15
Mobile revenue	623	655	5.1%
Fixed revenue	868	832	-4.2%
System solutions	114	165	45.3%
Miscellaneous	14	21	53.9%
Revenue	1,619	1,673	3.4%
Other operating income	22	42	89.0%
Total operating revenue	1,641	1,715	4.5%
Operating expenses	1,086	1,147	5.6%
Material expenses	436	509	16.6%
Employee benefits expenses	304	289	-5.0%
Other expenses ¹⁾	337	347	3.1%
Work performed by the Group and capitalised	-13	-13	-2.2%
Write down of assets	21	14	-31.3%
EBITDA	555	568	2.4%
Depreciation and amortization ¹⁾	362	349	-3.7%
EBIT	193	219	13.8%
Financial income	18	19	3.1%
Income/loss from investment in joint ventures	-2	-3	-10.9%
Financial expenses ¹⁾	28	69	145.0%
Profit before taxes	180	166	-7.8%
Taxation	38	34	-10.7%
Net profit	142	132	-7.0%

Non controlling interests	-9	-3	60.7%
Net profit after non controlling interests	151	136	-10.1%
Exceptional items ²⁾	73	59	-18.8%
EBITDA before exceptional items	628	627	-0.1%

¹⁾ Other expenses, Depreciation and amortization, as well as Financial expenses are restated for 1Q 2015 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs

²⁾ Exceptional items in Q1 2016 refer to redundancy costs totalling HRK 59 million. Exceptional items in Q1 2015 refer to redundancy costs totalling HRK 73 million.

8.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2015	At 31 Mar 2016	% of change A16/A15
Intangible assets	1,651	1,638	-0.8%
Property, plant and equipment	5,616	5,576	-0.7%
Non-current financial assets	1,033	1,008	-2.4%
Receivables	98	99	1.4%
Deferred tax asset	46	44	-4.5%
Total non-current assets	8,444	8,366	-0.9%
Inventories	104	123	18.2%
Receivables	1,215	1,225	0.8%
Current financial assets	869	541	-37.8%
Cash and cash equivalents	3,175	3,654	15.1%
Prepayments and accrued income	272	227	-16.4%
Total current assets	5,636	5,770	2.4%
TOTAL ASSETS	14,079	14,136	0.4%

Subscribed share capital	9,823	9,823	0.0%
Reserves	445	445	0.0%
Revaluation reserves	4	27	
Retained earnings	268	1,193	

Net profit for the period	925	136	-85.3%
Non controlling interests	177	165	-6.5%
Total issued capital and reserves	11,641	11,788	1.3%
Provisions	68	60	-11.2%
Non-current liabilities	443	473	6.7%
Deferred tax liability	45	43	-3.0%
Total non-current liabilities	556	576	3.7%
Current liabilities	1,775	1,623	-8.6%
Deferred income	103	88	-14.5%
Provisions for redundancy	4	60	
Total current liabilities	1,882	1,771	-5.9%
Total liabilities	2,438	2,347	-3.7%
TOTAL EQUITY AND LIABILITIES	14,079	14,136	0.4%

8.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Q1 2015	Q1 2016	% of change A16/A15
Profit before tax	180	166	-7.8%
Depreciation and amortization	362	349	-3.7%
Increase / decrease of current liabilities	-191	11	105.8%
Increase / decrease of current receivables	124	63	-49.6%
Increase / decrease of inventories	-12	-19	-54.6%
Other cash flow increases / decreases	-38	5	114.4%
Net cash inflow/outflow from operating activities	426	575	35.0%
Proceeds from sale of non-current assets	3	33	887.2%
Proceeds from sale of non-current financial assets	0	0	-0.5%
Interest received	6	5	-4.2%
Other cash inflows from investing activities	1,001	596	-40.4%
Total increase of cash flow from investing activities	1,011	635	-37.2%
Purchase of non-current assets	-232	-400	-72.1%
Purchase of non-current financial assets	0	0	-

Other cash outflows from investing activities	-225	-233	-3.7%
Total decrease of cash flow from investing activities	-457	-633	-38.5%
Net cash inflow/outflow from investing activities	553	1	-99.7%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	0	0	-
Dividends paid	0	0	100.0%
Repayment of finance lease	-2	-2	17.7%
Other cash outflows from financing activities	-66	-67	-1.8%
Total decrease in cash flow from financing activities	-68	-69	-1.2%
Net cash inflow/outflow from financing activities	-68	-69	-1.2%
Exchange gains/losses on cash and cash equivalents	7	-29	
Cash and cash equivalents at the beginning of period	2,192	3,175	44.8%
Net cash (outflow) / inflow	919	479	-47.9%
Cash and cash equivalents at the end of period	3,111	3,654	17.4%

Note: Q1 2015 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) costs at 2015 year end

8.4 Consolidated EBITDA reconciliation

in HRK million	Q1 2015	Q1 2016	% of change A16/A15
Segment Result (Contribution to EBITDA)			
Residential Segment	640	624	-2.5%
Business Segment	296	305	2.8%
Network and Support Functions	-361	-355	1.6%
Segment Optima consolidated	52	54	2.2%
Total Contribution to EBITDA before exceptional items of the Segments	628	627	-0.1%
Exceptional items	73	59	-18.8%
Total EBITDA	555	568	2.4%

8.5 Notes to the condensed consolidated financial statements for the three months ended on 31 March 2016

Basis of preparation

The condensed consolidated financial statements as of 31 March 2016 and for the three months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of HT's consolidated financial statements for the year ended 31 December 2015.

Dividends

On 21 April 2016 General Assembly of Hrvatski Telekom d.d. reached a decision on dividend distribution for 2015 in amount of HRK 491,307,624.00 (6.00 HRK per share).

Dividend will be paid in May 2016.

A part of the net profit for 2015 amounting to HRK 47,000,000.00 will be used to increase legal reserves.

Segment information

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

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

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

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

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

are only reported in the whole amount on the Miscellaneous revenue line. According to the restrictions introduced by the regulator, access to Optima Telekom revenue information is limited.

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

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

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

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

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

Period ended 31 March 2015	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Optima Telekom consolidated HRK millions	Total HRK millions
Segment revenue	921	593	-	105	1,619
<i>Service revenues</i>	838	537	-	-	1,375
<i>Terminal equipment</i>	44	28	-	-	72
<i>Other</i>	39	28	-	105	172
Usage related direct costs	(51)	(42)	-	(23)	(116)
Income and losses on accounts receivable	(13)	(5)	-	(1)	(19)
Contribution margin I	857	546	-	81	1,484
Non-usage related direct costs	(117)	(154)	-	(1)	(272)
Segment result,	740	392	-	80	1,212
Other income	-	-	21	-	21
Other operating expenses, restated	(118)	(106)	(424)	(30)	(678)
Depreciation, amortisation and impairment of non-current assets, restated	-	-	(362)	-	(362)
Operating profit	622	286	(765)	50	193

Period ended 31 March 2016	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Optima Telekom consolidated HRK millions	Total HRK millions
Segment revenue	914	651	-	108	1,673
<i>Service revenues</i>	801	598	-	-	1,399
<i>Terminal equipment</i>	66	24	-	-	90
<i>Other</i>	47	22	-	108	184
Usage related direct costs	(51)	(45)	-	(23)	(119)
Income and losses on accounts receivable	(3)	(9)	-	(2)	(14)
Contribution margin I	860	597	-	83	1,540
Non-usage related direct costs	(141)	(203)	-	(3)	(347)
Segment result	719	394	-	80	1,193
Other income	-	-	41	-	41
Other operating expenses	(109)	(101)	(430)	(26)	(666)
Depreciation, amortisation and impairment of non-current assets	-	-	(349)	-	(349)
Operating profit	610	293	(738)	54	219

Relations with the governing company and its affiliated companies

In the first three months of 2016 there were no transactions among related parties with a significant impact on the financial position and operations of the Group in the given period.

In the first three months of 2016 there were no changes in transactions among related parties which were specified in the annual financial report for 2015 and which had a significant impact on the financial position and operations of the Group in the first three months of 2016.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first three months of 2016 and the governing company and affiliated companies thereof can be classified as follows:

Transactions with related companies

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

In the first three months of 2016 the Group generated total revenue from related companies from international traffic to the amount of HRK 13 million (the first three months of 2015: HRK 12 million), while total costs of international traffic amounted to HRK 3 million (the first three months of 2015: HRK 4 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 2 million in the first three months of 2016 (the first three months of 2015: HRK 4 million).

Compensation of the Supervisory Board

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

In the first three months of 2016 the Company paid a total amount of HRK 0.2 million (the first three months of 2015: HRK 0.1 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first three months of 2016 the total compensation paid to key management personnel of the Group amounted to HRK 8 million (first three months of 2015: HRK 8 million Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

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

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

The management report for the first three months of 2016 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)

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, 28 April 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