ANNUAL REPORT 2013

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ANNUAL REPORT
2013

CONTENT

OPERATIONAL HIGHLIGHTS

T-HT GROUP

in HRK million	Jan-Dec 2013	Jan-Dec 2012	% of change 13/12
Revenue	7,042	7,555	-6.8%
EBITDA before exceptional items	3,065	3,520	-12.9%
Exceptional items	66	144	-53.9%
EBITDA after exceptional items	2,998	3,376	-11.2%
EBIT (Operating profit)	1,632	2,050	-20.4%
Net profit after minority interest [1)]	1,442	1,696	-15.0%
EBITDA margin before exceptional items	43.5%	46.6%	-3,1 p.p.
EBITDA margin after exceptional items	42.6%	44.7%	-2,1 p.p.
EBIT margin	23.2%	27.1%	-4,0 p.p.
Net profit margin [1)]	20.5%	22.4%	-2,0 p.p.
Balance Sheet At	**31 Dec 2013**	**31 Dec 2012**	**% of change 13/12**
Total non current assets	7,708	7,858	-1.9%
Total current assets	5,112	5,254	-2.7%
TOTAL ASSETS	**12,820**	**13,113**	**-2.2%**
Total issued capital and reserves	10,700	10,899	-1.8%
Total non current liabilities	276	279	-0.9%
Total current liabilities	1,844	1,935	-4.7%
TOTAL EQUITY AND LIABILITIES	**12,820**	**13,113**	**-2.2%**
Cash flow	**Jan-Dec 2013**	**Jan-Dec 2012**	**% of change 13/12**
Net cash flow from operating activities	2,348	2,982	-21.3%
Net cash flow from investing activities	-1,771	-1,717	-3.1%
Net cash flow from financing activities	-1,686	-1,825	7.6%
Cash and cash equivalents at the end of period	**2,039**	**3,146**	**-35.2%**
CAPEX	1,426	1,180	20.8%
CAPEX / Revenue ratio	20.2%	15.6%	4.6 p.p.
	Jan-Dec 2013	**Jan-Dec 2012**	**% of change 13/12**
ROE	13.3%	15.5%	-2,1 p.p.
ROCE	14.9%	18.3%	-3,5 p.p.
Number of employees (FTEs)	5,621	5,780	-2.7%

[1)] Effective tax rate in 2012 was 18.95% while in 2013 was 11.52% due to reinvested part of profit in amount of HRK 694 million

OPERATIONAL HIGHLIGHTS

Key operational data	Jan-Dec 2013	Jan-Dec 2012	% of change 13/12
Mobile customers in 000			
Number of customers	**2,303**	**2,326**	**-1.0%**
- Residential	1,833	1,859	-1.4%
- Business	469	467	0.5%
Number of postpaid customers	**1,070**	**1,011**	**5.9%**
- Residential	634	578	9.7%
- Business	436	433	0.7%
Number of prepaid customers	**1,232**	**1,315**	**-6.3%**
Minutes of use (MOU) per average customer	**174**	**146**	**19.2%**
- Residential	155	121	28.0%
- Business	249	244	2.1%
Blended ARPU (monthly average for the period in HRK)	**83**	**91**	**-8.6%**
- Residential	71	74	-3.9%
- Business	133	160	-17.0%
Blended non-voice ARPU (monthly average for the period in HRK)	**31**	**28**	**9.9%**
SAC per gross add in HRK	**104**	**80**	**30.8%**
Churn rate (%)	**3**	**3**	**-0,1 p.p.**
Penetration (%) [1]	**116**	**117**	**-1,1 p.p.**
Market share of customers (%) [1]	**47**	**47**	**0,1 p.p.**
Data customers (in 000) [2]	**1,303**	**1,269**	**2.7%**
Smartphone customers (%) [3]	**32**	**23**	**9,0 p.p.**
Smartphones sold (%) [4]	**60**	**52**	**8,0 p.p.**

1) Source: published VIPnet's quarterly report for 4Q 2012 and Tele2's quarterly report for 4Q 2012. Number of customers for VIPnet and Tele2 for 4Q 2013 are internally estimated.
2) Mobile Data customers refer to SIM cards with recurring or non-recurring data usage, allowing access to internet and data services through the mobile network infrastructure. Recurring data usage refers to the PSD access data share of voice & data bundle price plans or options for smartphones or comparable devices with recurring payments (> 1month) and a predefineddata volume (incl. flat). Non-recurring data usage referes to revenues from pay-for-use customers using smartphones or comparable devices.
3) Number of customers using a smartphone handsets in total number of mobile customers
4) Number of smartphones sold in total number of handsets sold (postpaid only)

OPERATIONAL HIGHLIGHTS

Key operational data	Jan-Dec 2013	Jan-Dec 2012	% of change 13/12
Fixed mainlines in 000			
Fixed mainlines - retail [1)]	**1,133**	**1,208**	**-6.2%**
- Residential	973	1,032	-5.8%
- Business	160	176	-8.7%
Fixed mainlines			
- wholesale (WLR - wholesale line rental)	**118**	**104**	**13.7%**
- Residential	101	85	17.9%
- Business	18	19	-5.4%
Total Traffic (mill. of minutes) [5)]	**1,967**	**2,398**	**-18.0%**
- Residential	1,573	1,844	-14.7%
- Business	394	554	-28.9%
ARPA voice per access			
(monthly average for the period in HRK) [2)]	**103**	**115**	**-10.1%**
- Residential	90	97	-7.5%
- Business	184	216	-15.1%
IP mainlines/ customers in 000			
Broadband access lines - retail [3)]	**628**	**633**	**-0.7%**
- Residential	520	526	-1.1%
- Business	108	107	1.0%
Broadband access lines - wholesale [4)]	**41**	**25**	**67.8%**
- Poslovni	41	25	67.8%
TV customers	**391**	**364**	**7.3%**
- Residential	369	344	7.3%
- Business	22	21	7.3%
thereof IPTV	**340**	**332**	**2.5%**
- Residential	320	312	2.4%
- Business	21	20	4.1%
thereof Cable TV	**6**	**6**	**0.0%**
- Residential	6	6	0.1%
- Business	0	0	-8.0%
thereof Satellite TV	**45**	**26**	**69.2%**
- Residential	43	26	68.6%
- Business	1	1	89.1%

Fixed-line customers	**1**	**1**	**5.8%**
VPN connection points	**5**	**4**	**5.3%**
Broadband retail ARPA (monthly average for the period in HRK)	**127**	**126**	**1.4%**
- Residential	126	124	1.8%
- Business	133	134	-0.7%
Data lines in 000			
Total data lines	**5**	**5**	**1.0%**
Wholesale customers in 000			
CPS (Carrier Pre-Selection)	23	32	-28.8%
NP (Number portability) users/number	722	646	11.7%
ULL (Unbundled Local Loop)	173	162	6.7%

[1)] Includes PSTN, FGSM and old PSTN Voice customers migrated to IP platform; Payphones excluded
[2)] Payphones excluded
[3)] Includes ADSL, FTTH and Naked DSL
[4)] Includes Naked Bitstream + Bitstream
[5)] Total Traffic is generated by fixed retail mainlines as defined in note 1.

Presentation of information in the Annual Report

Unless the context otherwise requires, references in this publication to ''T-HT Group'' or ''the Group'' or "T-HT" are to the Company - Hrvatski Telekom d.d., together with its subsidiaries.
References to ''HT'' or the ''Company'' are to the Company - Hrvatski Telekom d.d.
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, usluge integracije informatičkih tehnologija d.o.o.
References in this publication to ''Agency'' are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications
Presented financial figures may slightly differentiate from Consolidated Financial statements due to rounding principle (in Consolidated Financial statements all mathematic operations are performed with numbers without decimal places).

INTRODUCTION

LETTER TO SHAREHOLDERS

Dear shareholders,

It is my pleasure to address you having taken the position of President of the Management Board and having joined the Hrvatski Telekom team on 1 January 2014. In taking this role, I am fully conscious of the confidence that has been placed in me and the challenges that face the Croatia's largest telecommunications provider.

In 2013, Hrvatski Telekom maintained its strong leading position in the Croatian telecommunications market, with more than 1.2 million fixed-line customers, 2.3 million mobile subscribers, 628,414 broadband retail access lines and 390,755 customers of TV services.

Against a backdrop of continuous economic crisis, intense competition and changes to roaming and interconnection fees following Croatia's accession to the EU, T-HT generated total revenue of HRK 7,042 million, a 6.8% decrease on the previous year. The revenue fall was slowed by strong growth in the ICT segment, however, and by increased revenue in the mobile broadband and TV services segment.

Along with the impact of reduced roaming fees, the Croatian mobile communications market was also impacted by the continued economic slowdown, an increase in the number of flat rate tariffs and Internet promotion activities. T-HT recorded a 1.0% drop in its mobile customer base, but maintained a leading market share of 47%.

The Group introduced a number of products and initiatives, including the innovative PLAN tariff designed to meet the needs of a range of customer categories, offering access to LTE speeds and multimedia services. In addition, T-HT further expanded coverage of its LTE network based on 4G technology, and this is now also available to prepaid customers.

The fixed telephony market continued to face increased competitive pressure from bundled telecommunication offers. T-HT maintained its leading market position through the introduction of innovations and top-quality offers, including the double-speed MAXadsl offer, services based on FttH technology and a unique package of fixed line services and mobile tariffs in the MAX obitelj tariff plan.

The Group achieved success outside its core telecommunications services market as a result of the further development of its standard ICT service portfolio (Cloud services, Market place, Fiscalization) and ICT solutions delivered to specific key accounts. At the same time Combis was very successful in the field of customized solutions for individual market segments and IT infrastructure maintenance.

In December 2013, T-HT expanded its service portfolio by entering the electricity supply business. This retail market offers potential for growth and the development of the Group's operations, leveraging T-HT's existing IT solutions, advanced customer support and wide sales network.

In light of the Group's lower revenue and higher share of less profitable areas, EBITDA totaled HRK 2,998 million, marking an 11.2% decline from the previous year. However, tight control of operating costs enabled the Group to maintain the EBITDA margin at a strong 42.6%.

The Group also undertook substantial capital investment in 2013. Investment totaled HRK 1,426 million, a 20.8% increase compared to the previous year, and was primarily focused on further development of mobile broadband services, PSTN migration, the TeraStream pilot, construction of a new data center and the upgrade of a call center. Also in 2013, the Group acquired additional radiofrequency spectrum in the 800 MHz band.

In 2013, T-HT shares were again the most traded shares on the Zagreb Stock Exchange, with turnover of almost HRK 530 million. T-HT's share price was impacted, however, by the continued difficult economic environment, global trends in the telecommunications sector, regulatory and competitive pressure on the Group's operations and low trading volumes at the Zagreb Stock Exchange. The highest share price in 2013 was HRK 220.50, while the lowest price recorded in the year was HRK 165.60.

In order to ensure long-term value for shareholders and reverse the declining trend in operational results, the Management Board and the Supervisory Board has proposed that 51.5% of net income generated in 2013 should be distributed to shareholders, while the remaining part shall be allocated to share capital increase, for reinvestment in the business. The proposed dividend value is HRK 9.00 per share.

The distinctiveness, quality and price of T-HT's products and services are key to the Group's operations. Its relationship with employees, customers, suppliers and investors, and its responsibility to the environment and the wider community in which the Company operates are of equal importance. Corporate responsibility is an integral part of T-HT's business operations and also provides a significant strategic advantage to the Group. T-HT undertakes a range of activities in the areas of culture, education, sports and environmental protection. In doing so, T-HT continued in 2013 to leverage its strengths to enrich the daily life and knowledge base of the community and transmit its corporate values to all stakeholders in the course of its day-to-day interactions.

In the forthcoming period, it is our goal to reverse the declining trend in operational results and to ensure long-term value for shareholders by embarking on significant investment in the development of the Group. We will intensify investment in infrastructure development and increased service quality while also identifying and exploiting regional business expansion opportunities. Alongside potential acquisition opportunities, we will also consider expanding our products and services in southeast European markets.

T-HT is also undertaking further internal transformation to achieve a more flexible organization that is wholly focused on our customers and on constantly improving our product and service offering.

I would like to thank our shareholders for their trust and our employees, Members of the Management Board and Supervisory Board for their commitment and contribution throughout 2013.

DAVOR TOMAŠKOVIĆ
President of the Management Board

CORPORATE PROFILE

At a Glance

T-HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services.
The core activities of Hrvatski Telekom d.d. (HT d.d. or the Company) and its subsidiary companies comprise the provision of electronic communications services and design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet, IPTV and ICT services, data transmission services (lease of lines, Metro-Ethernet, IP/MPLS, ATM), operating with GSM, UMTS and LTE mobile telephone networks.

History and Incorporation

Hrvatski Telekom d.d. is a joint stock company, majority owned by T-Mobile Global Holding Nr. 2 GmbH (a company 100% owned by Deutsche Telekom AG). It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT - Hrvatska pošta i telekomunikacije (HPT s p.o.) was separated and transferred into two new joint stock companies, HT - Hrvatske telekomunikacije d.d. (HT d.d.) and HP - Hrvatska pošta d.d. (HP d.d.). The Company commenced operations on 1 January 1999.

Pursuant to the terms of the Law on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold a 35% stake in HT d.d. to Deutsche Telekom AG (DTAG), and on 25 October 2001, DTAG purchased a further 16% share in HT d.d. and thus became the majority shareholder with a 51% stake. Pursuant to the Share Transfer Agreement, in December 2013, DTAG transferred a total of 41,763,153 shares of HT d.d., representing 51% of the issued share capital of the Company, to T-Mobile Global Holding Nr. 2 GmbH. The above mentioned transfer of shares was executed as a part of the internal restructuring performed within DTAG and as a result thereof, DT AG's influence in HT d.d. remains unchanged.

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's name was officially changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded in T-HT, thus becoming a part of the global "T" family of Deutsche Telekom. This evolution of the corporate identity was followed by the creation of trade marks for the two separate business units of the Group: the fixed network operations business unit, T-Com - which also provided wholesale, Internet and data services; and the mobile operations business unit, T-Mobile.

On 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the Law on Privatization of HT d.d. (Official Gazette No. 65/99 and 8/2001).

In May 2006, the Company acquired 100% of shares of Iskon Internet d.d., one of the leading alternative telecom providers in Croatia.

Pursuant to the provisions of the Law on Privatization of HT d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 2007, the Republic of Croatia sold 32.5% of T-HT ordinary shares by Initial Public Offering (IPO). Of the total shares in the Offering, 25% were sold to Croatian retail investors, while 7.5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, giving private and institutional investors 38.5% in total.
In October 2009, T-Mobile Croatia was merged into HT d.d. The merger came into effect on 1 January 2010, following which the Group was organised into Residential and Business units. In addition, the Company's registered name was officially changed from HT - Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d. on 21 May 2010.

On 17 May 2010, HT d.d. completed the acquisition of IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments.

In December 2010, the Republic of Croatia transferred 2,859,148 shares of Hrvatski Telekom d.d., equal to 3.5% of the entire share capital of the Company, to the Pensioners' Fund. In December 2013, the Pensioners' Fund transferred 3.5% of shares in the Company to the account of the Restructuring and Sale Center – CERP. CERP was founded by the Republic of Croatia in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Pensioners' Fund no longer owns shares in the Company, while the Republic of Croatia again holds a stake in Hrvatski Telekom d.d.

INVESTOR INFORMATION

Economic environment and share price performance

Against the backdrop of an economic rebound following the worst global recession since the 1930s, and with the support of central banks, most major stock markets rose significantly in 2013, with some rocketing to new highs, such as the US markets. Japan also performed extraordinarily well, while most European markets moved firmly into positive territory too. At the beginning of 2014, a mood of optimism continues to prevail globally, although some analysts are urging a degree of caution.

Optimistic sentiment also emerged on the Croatian stock market at the beginning of 2013, spurred primarily by the prospects offered by EU accession on 1 July. Consequently CROBEX, the local benchmark index, closed the first quarter 15.4% higher from the start of the year. However, for the remainder of 2013, sentiment was predominantly downbeat, and this depressed the market and resulted in the Index closing the year just 3.1% higher, in a similar range to most other regional indices.

In 2013, Croatia saw a fifth consecutive year without GDP growth, whilst bankruptcies continued to be a feature of the economy and unemployment remained extremely high.

There is a widespread consensus that Croatia needs to undertake meaningful structural reforms, improve the competiveness of the economy, attract foreign investors and set out a clear strategy for fiscal consolidation as a matter of priority. Only then will Croatia be in a position to improve its credit rating, which is current set at sub-investment grade by all three major rating agencies.

T-HT shares followed the positive movement of the CROBEX for most of the first half 2013, registering a sharp price decline on 13 June, the ex-dividend date, as the graph below illustrates. During the remainder of the year, the shares saw no large fluctuations and closed the year at HRK 176.65, down 10.4% against the last trading day of 2012.
Along with the continued weak economic environment, global trends in the telecommunications industry, regulatory and competitive pressure on Group's business and low volumes traded on the Zagreb stock exchange all weighed on the T-HT share price performance. The high for the year was HRK 220.50, against a low of HRK 165.60 (Source: Zagreb Stock Exchange).

T-HT Share and GDR as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index, 1 January 2013 - 31 December 2013

The underperformance of the share price vis a vis the Dow Jones Euro Stoxx Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some Europe's largest telecom companies) resulted from the improvements in most European economies outlined above, expectations of a more favourable future regulatory framework than previously anticipated and consolidation in the European telecommunications sector.

Whilst volumes traded were down 12.0% from the previous year, T-HT was once again the most traded share on the Zagreb Stock Exchange, with nearly HRK 530 million of turnover, accounting for 19.4% of the ZSE's total trade by value of shares in 2013 (2012: HRK 600 million, 20.6%). To support liquidity in the shares, two Agreements on Market Making Services were signed in July 2013.

In terms of free float market capitalisation, as at 31 December 2013, T-HT was the largest company on the ZSE with HRK 6.1 billion (EUR 797.5 million), representing 23.1% of the total free float market capitalization by value (Source: Zagreb Stock Exchange).

At the last revision of the CROBEX index, T-HT's weighting was again set at 10% of the index.

As well as T-HT shares' listing on the Official Market of the Zagreb Stock Exchange, Global Depositary Receipts (GDRs), each representing one T-HT share, are traded on the London Stock Exchange.

In October, at a conference of the Zagreb Stock Exchange and Croatian investment fund industry, T-HT accepted the top award for Investor Relations in Croatia 2013 sponsored by popular business newspaper Poslovni dnevnik. (In 2012, T-HT also won the top award for best IR.)

In December, at the presentation ceremony of the Zagreb Stock Exchange Awards for 2013, T-HT received the award for the "Share with highest turnover" for the second consecutive year.

Dividend policy

The dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007:

> The future dividend policy should be that any dividends declared and paid in respect of any year following the year in which Offering takes place, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

Dividend for the 2012 financial year

On 17 June 2013, the General Assembly of the Company approved a dividend payment to shareholders of HRK 1,679,533,852.85 (HRK 20.51 per share), representing a dividend payout ratio of 100%. The dividend was paid in the first half of July 2013.

At the end of 2013, this represented a dividend yield of 11.6% on T-HT's closing price of HRK 176.65. Using the average closing share price over 2013, HRK 191.86, the dividend yield was 10.7%.

Dividend proposal for the 2013 financial year

The Management Board and Supervisory Board of Hrvatski Telekom d.d. propose to this year's General Assembly the following utilisation of Company's 2013 financial year net profit:

- a portion of net profit in the amount of HRK 736,961,436.00 or 9.00 HRK per share shall be paid out as dividend
- a portion of net profit in the amount of HRK 694,000,000.00 is allocated for reinvestment and shall be used to increase the share capital
- the remainder of the net profit in the amount of HRK 284,388.11 will be allocated to retained earnings.

The General Assembly has been convoked for 29 April 2014. According to the proposal, the above mentioned dividend will be paid on 26 May 2014 to shareholders registered at the Central Depository and Clearing Company (SKDD) on 9 May 2014.

Taxation of dividends, at the rate of 12%, was introduced as of 1 March 2012.

Shareholder Structure as at 31 December 2013.

T-Mobile Global Holding Nr. 2 GmbH	51.0%
Raiffeisen Mandatory Pension Fund	7.7%
War Veterans' Fund	7.0%
Restructuring and Sale Center/Republic of Croatia	3.5%
Private and other institutional investors	30.8%

Total number of shares issued: 81,888,535

The majority owner of the Company is T-Mobile Global Holding Nr. 2 GmbH (a company 100% owned by Deutsche Telekom AG), with 51% of total outstanding shares. Namely, pursuant to a Share transfer agreement, Deutsche Telekom AG has transferred a total of 41,763,153 shares of the Company, representing 51% of the issued share capital of the Company, to T-Mobile Global Holding Nr. 2 GmbH. The said transfer of shares was executed as a part of the internal restructuring performed within Deutsche Telekom AG and as a result thereof Deutsche Telekom AG's influence in the Company remains unchanged. This transfer of shares was entered in the electronic files of the computer system of the Central Depository & Clearing Company on 5 December 2013.

The Pensioner's Fund transferred 3.5% of shares of the Company to the owner account of Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) - on 12 December 2013. CERP was established by the Republic of Croatia in July 2013 as a legal successor to the Government Asset Management Agency. Following this transfer, the Pensioner's Fund no longer holds shares of the Company, and the Republic of Croatia is again present in the ownership structure of the Company.

The Croatian War Veterans' Fund owns 7.0% of shares, while the remaining 38.5% is owned by Croatian citizens and other domestic and foreign institutional investors. Raiffeisen obvezni mirovinski fond (Raiffeisen Mandatory Pension Fund) is the investor with the largest shareholding among private and institutional investors. As at 31 December 2013, Raiffeisen obvezni mirovinski fond had 7.7% of shares of the Company.

Financial Calendar

	Date
Release of full year 2013 results	February 14, 2014
The General Assembly of the Company	April 29, 2014
Release of first quarter 2014 results	April 30, 2014
Release of first half 2014 results	July 25, 2014
Release of first nine months 2014 results	October 30, 2014

The above-mentioned dates are subject to change

General information on Shares and GDRs

Shares:	ISIN: HRHT00RA0005
Regulation S GDRs:	ISIN: US44330H2004
Rule 144A GDRs:	ISIN: US44330H1014
ZSE Share trading symbol:	HT-R-A
LSE GDR trading symbol:	THTC
Portal Rule 144A GDR listing symbol:	P443296108 (HRVAL)
Reuters:	THTC.L, HT.ZA
Bloomberg:	THTC LI, HTRA CZ
Number of Shares:	81,888,535
Type:	Ordinary share
Nominal value:	HRK 100

Each GDR represents one Share on deposit with the Custodian.

The depositary for the GDR is:
JPMorgan Chase Bank, N.A.,
1 Chase Manhattan Plaza, Floor 58
New York
New York, 10005-1401
United States of America

The Custodian is:
Privredna Banka Zagreb
Radnička cesta 50
10000 Zagreb
Croatia

Investor Relations

Investor Relations
Hrvatski Telekom d.d.
Roberta Frangeša Mihanovića 9
10000 Zagreb
Tel.: +385 1 49 12000,
+385 1 49 11114,
+385 1 49 11884
Fax: +385 1 49 12012,
+385 1 49 11115
E-mail: ir@t.ht.hr

MANAGEMENT BOARD

DAVOR TOMAŠKOVIĆ
President of the Management Board (CEO)

Davor Tomašković was born in Vinkovci, Croatia in 1969. He graduated as an electrical engineer from the University of Zagreb in 1994. He subsequently completed an MBA program at Bocconi University in Milan, Italy, graduating summa cum laude in 1997. For over a decade Mr.Tomašković has occupied top positions at some of the most prominent Croatian companies.

Following his graduation as an engineer he was employed at the Croatian Ministry of Science and Technology implementing the first internet network for academia. After his graduation from Milan, he worked in Austria, at the consultancy firm McKinsey & Company.

In 2002 Mr. Tomašković returned to Croatia assuming the post of Director of Corporate Strategy and Business Development at Hrvatski Telekom.

In 2004 he was appointed President of the Management Board of Tisak, a leading Croatian distribution and retailing company. Subsequent to successful implementation of an extensive restructuring process at Tisak, he assumed position of President of the Management Board of TDR, the regional tobacco industry leader, which position he has occupied for the past seven years.

As of 1 January 2014 Mr.Tomašković performs the function of President of the Management Board of HT d.d.

NORBERT HENTGES
Member of the Management Board and Chief Operating Officer

Norbert Henges was born in 1961. After graduating in Communications Engineering, he began his career in the Optical Networks Product Marketing Department of Richard Hirschmann GmbH, followed by a period in the Sales and Consulting Department of data transmission company Telemation Gesellschaft für Datenübertragung.

Mr Hentges joined the Deutsche Telekom Group in 1994 and has held a number of senior roles within the Group including Head of the Technology and Platforms Central Unit of Deutsche Telekom AG; Head of the Wholesale Business Unit of Deutsche Telekom / T-Com; and Chairman of the Managing Board of the Business Unit for German Business Customers in Deutsche Telekom.

From 2010 to August 2012, Mr Hentges was Head of Save-for-Service in the Business Segment Europe. As member of the Europe Leadership Team he oversaw efficiency and cost programs across the national companies.

In September 2012, Mr Hentges joined the Management Board of Hrvatski Telekom, and took the newly created role of Chief Operating Officer.

DINO IVAN DOGAN, PH.D.
Member of the Management Board and Chief Financial Officer

Dino Ivan Dogan, Ph.D., was born in 1963 in Stuttgart, Germany. He graduated in Technical Business Administration from the University of Stuttgart, where he earned his Ph.D. in 1993. In the same year, he started his international industrial career in the telecommunications company Alcatel where, throughout the next ten years, he was holding managerial positions in Alcatel's German subsidiary and in Alcatel's headquarters in Paris. In 2003, he moved to Croatia where he was appointed to the position of Member of the Management Board and Chief Financial Officer of Vipnet. In Austria, he joined Mobilkom Austria in 2009 as Member of the Management Board and Chief Financial Officer. After having been appointed Board Member and of Telekom Austria AG in 2010, he took the position of Chief Integration Officer for Mobilkom Austria AG's merger with Telekom Austria AG. He received an international award for successful integration. From 1 April 2011 on, Dr. Dogan is a Member of the Management Board and Chief Financial Officer of Hrvatski Telekom.

For several years, he has been a visiting professor at the Business Administration Faculties of the Universities in Stuttgart and Zagreb and of the Economic Academy of Stuttgart. Dr. Dogan is the founding member of the German International School in Zagreb. He is a senior lecturer at the Management Department of the Zagreb School of Economics and Management. Dr. Dogan is the President of the German-Croatian Chamber of Industry and Commerce.

IRENA JOLIĆ ŠIMOVIĆ
Member of the Management Board and Chief Human Resources Officer

Irena Jolić Šimović was born in 1969. She graduated from the Faculty of Economics in Zagreb and received an MBA from IEDC, Bled, Slovenia. Prior to joining Hrvatski Telekom in 1998, she worked at Croatian Radio and Television (HRT), the Ministry of the Sea, Transport and Communications and the Ministry of Immigration.

She was Executive Director for Corporate Strategy and Business Development until August 2006, when she was appointed Member of T-HT's Management Board and Chief Human Resources Officer. Irena Jolić Šimović was Chief Operating Officer T-Com from October 2008 until December 2009. Following the Group's restructuring in January 2010, she became Chief Operating Officer Business with responsibility for Sales, Marketing, Customer Service, Wholesale and ICT Business Solutions.

In March 2010, Irena Jolić Šimović was honoured as one of the World Economic Forum's Young Global Leaders 2010, a unique community of exceptional young leaders who share a commitment to shaping the global future. In September 2012 she was again appointed Chief Human Resources Officer.

BOŽIDAR POLDRUGAČ
Member of the Management Board and Chief Technical and Information Officer

Božidar Poldrugač was born in 1967. He graduated from the Faculty of Electrical Engineering and Computing, Zagreb University in 1992 and earned a master's degree from the same faculty in 2000.

Božidar Poldrugač has twenty years of experience in various areas of telecommunications and information technologies. He began his career at Croatian Post & Telecommunications in 1993 and after separation of telecommunications business he served as a Member of the MB and Director for mobile communications at HT from October 2001 to January 2003, when the subsidiary company T-Mobile Croatia was established.

Since March 2007 he was appointed Member of the Board and CTO/CIO for the T-HT Group.

As member of the MB he is a steering group member of major strategic and transformational programs at HT. Internationally, he has been actively involved in business activities and technology affairs of DTAG, being a standing member of various technology organizations, commencing with T-Mobile International since November 2001 as member of Network Technology Board.

Complementary to his roles at HT, from March 2012 to date he is responsible operative lead for DT/EU IP Transformation initiative with key objective to deploy NGN architecture in conjunction with PSTN/ISDN migration across DT EU subsidiaries.

NATAŠA RAPAIĆ
Member of the Management Board and Chief Operating Officer Residential

Ms. Rapaić was born in 1969 in Zagreb. She graduated from the Faculty of Economics in Zagreb in 1993 and completed MBA studies at IE in Madrid in 2000. Ms Rapaić has gained professional experience working in various positions of responsibility. She was a co-founder and director of export/import operations in the company Milna Parket, economic analyst in the Economic Office at the Embassy of Spain, where she worked on research into the Croatian market and boosting economic cooperation between the two countries, and worked as a financial analyst in the investment department of the bank Grupo Caixa Galicia.

Ms Rapaić acquired marketing experience in the telecom industry working as a consultant at Madrid-based Europraxis Consulting and on various projects for the marketing sector of Telefónica Móviles.

She joined Hrvatski Telekom in 2003 as the Executive Director of the Sub-Unit Responsible for Communications. On 1 September 2005 she was appointed Member of T-Com Executive Board and Chief Marketing Officer.

In 2010 she took over the position of the Operating Director of the Residential Marketing Sector and on 1 February 2013 was appointed to the position of Member of the Management Board of HT d.d. and Chief Operating Officer Residential.

JENS HARTMANN
Member of the Management Board and Chief Operating Officer Business

Mr. Hartmann was born in 1974. Upon completion of Business Management studies in Germany, Mr. Hartmann took a position at the global consultancy McKinsey & Company, where he participated in a range of programs for improvement of strategy, sales and corporate finance in the telecommunications and in other sectors.From 2008 on, Mr. Hartmann has gained substantial knowledge and experience in senior managerial positions in the business customer segment of T-Systems and Deutsche Telekom in Bonn, where he played a key role in the strategic development of business, including product portfolio and innovation management, market positioning, sales organization improvement and customer segmentation.

On 17 June 2013, Mr. Hartmann was appointed Member of the Management Board and Chief Operating Officer Business of Hrvatski Telekom.

IVICA MUDRINIĆ
President of the Management Board (CEO) until 31 December 2013

Compensation to the Management Board members in 2013

In 2013, Ivica Mudrinić, President of the Management Board, was paid a fixed salary in annual gross amount of HRK 2,385,310 in average net monthly instalments of HRK 103,872. Variable part, according to 2012 goals achievement, amounted to HRK 714,421 net. Other benefits amounted to HRK 109,589 gross (company car usage and other).

Norbert Hentges, member of the Management Board, was in 2013 paid a fixed and variable salary in gross amount of HRK 3,047,252. The amount of other benefits was HRK 303,033 gross (insurance, apartment rental and company car usage).

Jens Gerhard Hartmann, member of the Management Board from June 17th 2013, was paid by the end of 2013 a fixed salary in gross amount of HRK 1,047,056. The amount of other benefits was HRK 214,484 gross (insurance and company car usage).

Božidar Poldrugač, member of the Management Board, was in 2013 paid a fixed salary in annual gross amount of HRK 1,458,038 in average net monthly instalments of HRK 66,819. Variable part, according to 2012 goals achievement, amounted to HRK 268,384 net. Other benefits amounted to HRK 182,288 (company car usage and other). The Christmas gift for child was paid in amount HRK 600 net.

Dino Ivan Dogan, member of the Management Board, was in 2013 paid a fixed salary in annual gross amount of HRK 1,696,037, in average net monthly instalments of HRK 74,311. Variable part, according to 2012 goals achievement, amounted to HRK 303,348 net. Other benefits amounted to HRK 59,320 gross (company car usage and other). The Christmas gift for child was paid in amount HRK 600 net.

Irena Jolić Šimović, member of the Management Board, was in 2013 paid a fixed salary in annual gross amount of HRK 1,328,330 in average net monthly instalments of HRK 57,539. Variable part, according to 2012 goals achievement, amounted to HRK 262,102 net. Other benefits amounted to HRK 122,210 gross (company car usage and other). The Christmas gift for child was paid in amount HRK 600 net.

Branka Skaramuča, member of the Management Board until 16 September 2012, was in 2013 paid a variable part of the salary, according to 2012 goals achievement, in amount of HRK 199,574 net. Other benefits amounted to HRK 21,555 gross.

Long Term Incentive Plans for management

Following incentive plans for high management were active in 2013 on the Company level: three-years-term incentive plan – Transitional HT MTIP 2011 and four-years-term incentive plans – HT Variable II 2011, HT Variable II 2012 and HT Variable II 2013. Their purpose is to ensure competitive total compensation for members of the Management Board, senior executives and other participants. The plans promote the medium and long-term value enhancement of the Company, thus aligning the interests of management and shareholders.
First HT's MTIP was introduced in 2008.

HT MTIP is set up as a cash-based plan based on two equally weighted, HT share-based performance parameters – one absolute and based on HT share price increase for certain percentage and one relative. If both performance targets are achieved, then the total amount earmarked as an award to participants is paid out, if one performance target is achieved, 50% of the amount is paid out, and if neither performance target is achieved, there is no payment.

HT MTIP's targets cannot be changed for entire duration. The first target is based on the increase of the HT share price by a certain percentage; the second target is related to the share price movement compared to the composite return index development.

MTIP covers the period of three years (eg Transitional HT MTIP 2011 covers the period from 1 January 2011 to 31 December 2013). Upon expiry of the term of the plan, the HT Supervisory Board determines whether each of the targets has been achieved. Based on the findings of the Supervisory Board, the Management Board shall determine and announce the level of target achievement.

The incentives themselves are based on 20% or 30% of the participant's individual annual salary as contracted on the beginning of each MTIP, depending on the management level of the participant and according to the Supervisory Board decision. Participant's individual annual salary is defined as the annual amount of total fixed salary and the amount of variable salary in case of a 100% target achievement.

At the end of 2012 HT MTIP 2010 has expired. By decision of the Supervisory Board it was determined that none of targets has been achieved. According to this SB decision, in 2013 participants were not paid the amount awarded at the beginning of HT MTIP 2010.

HT Variable II 2011 is a four- years-term cash-based plan, introduced for the first time in 2011, instead of previous three-years-term MTIP, and based on four equally weighted performance parameters which cannot be changed during the plan duration. Two targets are financial KPIs: Earnings per Share (EPS) and adjusted operating Return on Capital Employed (ROCE), third and forth targets are customer satisfaction and employee satisfaction.

Unlike the MTIP structure, Variable II offers the opportunity of exceeding the amount earmarked for award, limited to 150% of the award volume per parameter. The parameters are independent of each other, hence each parameter is assessed separately. Both potential excesses and shortfalls in relation to targets are accounted on a graded basis per target parameter (departure from the principle of "all or nothing").

The amount of Variable II awarded to participants is based, same as in MTIPs, on 30% or 20% of the participant's individual annual salary as contracted on the beginning of the plan, depending on the management level and according to the Supervisory Board decision.
In 2013 HT Variable II 2013 was launched.

Compensation model for International Business Leaders (BLTs), introduced in 2011, continues in 2013. It consists of Variable I (Matching Share Plan) and Variable II, implemented and precisely defined in their individual employment contract. For the time being it is applicable only for the President of the Management Board (CEO), as a member of DT Group BLTs.

HT Matching Share Plan is established to ensure the long-term incentive effect and orientation towards the sustained development of the Company.

According to the provisions of the Plan, the participant is obliged to invest in HT shares, through a personal investment, minimum 10% and maximum 33,33% of his annual gross variable salary (Bonus/Variable I) paid in each year, starting from 2011 onwards.

Purchased shares are to be held for a period of at least 4 years (lock-up period). After the lock-up period expires, one additional share (matching share) Company will grant for each share acquired as a part of the aforementioned personal investment.

SUPERVISORY BOARD

Mark Klein	Chairman	
Ivica Mišetić, Ph. D.	Deputy chairman	
Oliver Morbach	Member	Until 17 June 2013
Dr. Ralph Rentschler	Member	
Dr. Oliver Knipping	Member	
Dr. Kathryn Walt Hall	Member	
Mark Nierwetberg M. A.	Member	From 17 June 2013
Ilias Drakopoulos, Ph. D.	Member	From 17 June 2013
Juko Cikojević	Member	
Damir Grbavac	Member	

As specified by the Company, a chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of employees of the Company, paid in the preceding month. To a deputy chairman, the amount of 1.25 of the average net salary of employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of employees of the Company paid in the preceding month. To a member of the Supervisory Board who is at the same time a Chairman of the Audit Committee of the Supervisory Board, the amount of 1.5 of the average monthly net salary of employees of the Company paid in the preceding month, is paid. To a member of the Supervisory Board who is at the same time a Member of the Audit Committee of the Supervisory Board, the amount of 1.25 of the average monthly net salary of employees of the Company paid in the preceding month, is paid. To a member of the Supervisory Board who is at the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, the amount of 1.25 of the average monthly net salary of employees of the Company paid in the preceding month, is paid.

DTAG representatives do not receive any remuneration for the membership in the Supervision due to a respective policy of DTAG.
No loans were granted to members of the Supervisory Board.

In 2013 the Sustainability Committee of the Supervisory Board was established, with the president and two members. One of members receives remuneration in the amount of 25% of the average net salary of employees of the Company paid in the preceding month.

Compensation to the Supervisory Board members and the member of the Sustainability Committee of SB in 2013

		The period of 2013 in which the fee is paid		
		From	To	Gross (HRK)
Juko Cikojević	SB member December	1st January	31st December	**163,734**
Kathryn Hall	SB member December	1st January	31st December	**192,388**
Ivica Mišetić	SB member December	1st January	31st December	**204,668**
Damir Grbavac	SB member December	1st January	31st December	**153,910**
Ante Ramljak	Sustainability Committee member	1st November	31st December	**7,516**
Total				**722,215**

SUPERVISORY BOARD'S REPORT

Pursuant to Article 263, paragraph 3, and Article 300.c of the Companies Act and Article 31 of the Articles of Association of Hrvatski Telekom d.d., the Supervisory Board of Hrvatski Telekom d.d. Zagreb, Savska cesta 32 (hereinafter referred to as "the Company"), consisting, on the day of issuance of this report, of Mr. Mark Klein, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Dr. Oliver Knipping, Dr. Ralph Rentschler, Mr. Ilias Drakopoulos, Ph.D., Mr. Mark Nierwetberg, Mrs. Kathryn Walt Hall, Mr. Damir Grbavac and Mr. Juko Cikojević, representative of the workers of HT d.d., Members of the Supervisory Board, submits to the General Assembly this

REPORT

on performed supervision during the business year 2013 and on the results of the examination of the business and financial reports for the business year 2013

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2013,
- the results of the examination of the annual financial statements as of 31 December 2013 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2013,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2013, according to the list of the top ten shareholders of the Company published by the Central Depository & Clearing Company, significant Company shareholders are as follows.

T-Mobile Global Holding Nr. 2 GmbH (a company 100 per cent owned by Deutsche Telekom AG) is the majority owner of the Company with 51 per cent of total outstanding shares. Namely, pursuant to the Share transfer agreement, Deutsche Telekom AG has transferred a total of 41,763,153 shares of the Company, representing 51 per cent of the issued share capital of the Company, to T-Mobile Global Holding Nr. 2 GmbH. The said transfer of shares was executed as a part of the internal restructuring performed within Deutsche Telekom AG and as a result thereof Deutsche Telekom AG's influence in the Company remains unchanged. This transfer of shares was entered in the electronic files of the computer system of the Central Depository & Clearing Company on 5 December 2013.

The Pensioner's Fund has transferred 3.5 per cent of shares of the Company to the owner account of Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) on 12 December 2013. CERP was established by the Republic of Croatia in July 2013 as a legal successor to the Government Asset Management Agency. Following this transfer the Pensioner's Fund no longer holds shares of the Company, and Republic of Croatia is again present in the ownership structure of the Company. The Croatian War Veteran's Fund owns 7 per cent of shares, while other private and institutional investors hold the remaining 38.5 per cent of shares. Raiffeisen obvezni mirovinski fond (Raiffeisen Mandatory Pension Fund) is the investor with the largest shareholding among the private and institutional investors. As at 31 December 2013 Raiffeisen obvezni mirovinski fond had 7.7 per cent shares of the Company. An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser in the browser).

The shares of the Company are included in depository services of the Central Depository & Clearing Company as of 12 July 2002.

The Company's shares have been listed on the Zagreb Stock Exchange since 5 October 2007. Global Depository Receipts (GDR), each representing one (1) HT d.d. share, have been listed on the London Stock exchange since 5 October 2007.

On the day of issuance of this Report, the Supervisory Board has five members representing Deutsche Telekom AG, one member nominated by the Raiffeisen Mandatory Pension Fund, two independent members and one member appointed by the Workers' Council of HT d.d.

Supervisory Board

During 2013, the composition of the Supervisory Board of the Company changed as follows:

Member of the Supervisory Board, Mr. Oliver Morbach, has resigned from his position in the Supervisory Board with effect as of 17 June 2013.

Mr. Mark Nierwetberg and Mr. Ilias Drakopoulos, Ph.D., were elected as new Members of the Supervisory Board as of 17 June 2013.

Audit Committee

On the day of issuance of this report: Mr. Axel Brandes, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Franco Musone Crispino, Member, were the members of this Committee.

Mr. Kay Nolden resigned from his position of Chairman of the Audit Committee, with effect as of 13 February 2013, and the Supervisory Board appointed Mr. Axel Brandes as the new Chairman of the Audit Committee, with effect as of 13 February 2013.

Compensation and Nomination Committee

On the day of issuance of this report: Mr. Mark Klein, Chairman, Dr. Ralph Rentschler, Member, and Mrs. Kathryn Walt Hall, Member, are the members of this Committee.

Sustainability Committee

In July 2013 the Supervisory Board established the Sustainability Committee for the purpose of involvement of the Supervisory Board in sustainability within the Company and overseeing the implementation of the guidelines and internationally accepted standards of reporting on sustainability.

The Committee consists of three (3) members, two external experts and one member of the Supervisory Board. On the day of issuance of this report: Dr. Oliver Knipping, Chairman, Mr. Ante Ramljak, Member, and Mrs. Birgit Klesper, Member, are the members of this Committee.

Management Board

On the day of issuance of this report, the Management Board of the Company has seven (7) members.

The following section lists the changes in the Management Board membership:

Mrs. Nataša Rapaić was appointed as Member of the Management Board and Chief Operating Officer Residential (COO Residential), with commencement of her term of office as of 1 February 2013.

Mr. Jens Gerhard Hartmann was appointed as Member of the Management Board and Chief Operating Officer Business (COO Business), with commencement of his term of office as of 17 June 2013.

In October 2013 the Supervisory Board reappointed Mr. Ivica Mudrinić as President of the Management Board (CEO) for another term of office in the duration of three years, with commencement as of 1 January 2014, but Mr. Mudrinić resigned from his position of President of the Management Board (CEO), effective as of 31 December 2013.

Mr. Davor Tomašković was appointed as the new President of the Management Board (CEO), with commencement of his term of office as of 1 January 2014.

Performed supervision during the business year 2013

In 2013, there were seven (7) sessions of the Supervisory Board and four (4) decision makings out-of-session.

The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company and the By-Laws on the Work of the Supervisory Board of the Company.

Aside from the regular reports of the Management Board of the Company on the results and status of business operations of the Company and joint consultations on business development, the issues below were discussed in detail, and the Supervisory Board provided respective prior approvals and recommendations:

- Strategic program,
- T-HT Transformation Program,
- IP Transformation Migration Plan,
- Regulatory framework – local development and impacts to the Company's operations and performance alignment with EU regulatory framework, impact of EU accession on roaming prices and mobile termination rates, etc.,
- New trends – expansion of 3G network and 4G Long Terms Evolution (LTE) network coverage and launch of first LTE prepaid offer, next generation Internet infrastructure in the TeraStream pilot network, launch of Deezer, leading global music service, and of HotSpot Fon service, part of the largest global WIFI network Fon, new tariffs for residential customers, further development of cloud services portfolio and Marketplace for business customers, acquisition of an additional "digital dividend" band, providing the energy activity of electricity supply, etc.,
- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system, management development framework and sucession planning, employee career management,
- Corporate Governance and membership of the Management Board as described above,
- Decision proposals for the General Assembly,
- International activities of the Company,
- Annual Business Plan for 2014 and Strategic Plan for 2015 – 2017,
- Cash management and savings initiatives of the Company,
- Reports and proposals of the Compensation and Nomination Committee with regard to the target-setting and target-achievement of the Company and Management Board and remuneration proposals for MB Members,
- Composition of the Audit Committee and their reports Establishment of the Sustainability Committee and its composition, Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and the listing of GDR's representing the Company's shares on the London Stock Exchange,
- Pre-bankruptcy settlement proceedings in Croatia and intended concentration with Optima Telekom,
- Impacts of the strong competition and a serious and prolonged downturn in the Croatian economy to the results of the Company.

In 2013, the Audit Committee of the Supervisory Board held five (5) regular sessions and discussed various issues, especially:

- 2012 year-end closing of HT Group,
- Quarterly financial results of HT Group,
- External Auditor's Report (auditor's independence, audit adjustments and significant deficiencies, management judgments and accounting estimates, accounting policies and disclosure in the financial statements, significant risks and disclosures in the financial statements, cooperation with management, report on auditor engagement, Management "Recommendation letter 2012", status of recommendations from "Recommendation letter 2011", etc.),

- Risk Reports for HT Group with significant risks and exposures (risk related to the legalization of telecommunications infrastructure (TI), consumer protection litigation status, Wholesale Line Rental and Reference Interconnection Offer (RIO), potential abuse of Pay TV market and potential abuse of dominant position on Whole Sale markets, consolidating state owned telecommunication network, alternative operator doubtful receivables, public procurement, H1 Lawsuit on damage compensation, modification of exploitation model for sport content rights, etc.),
- Quarterly Compliance and Fraud reports,
- Reports of the Compliance officer,
- Implementation and effectiveness of internal control over financial reporting,
- Internal Control System optimization,
- Annual audit program 2013 execution including significant findings,
- Supervision over the realization of audit measures,
- Set up of Annual audit program 2014.

According to the available information, Audit Committee finds that in relation to financial reporting, risk management, compliance management system, internal and external audit engagement there is no indication that internal control system does not work effectively.

In 2013, the Compensation and Nomination Committee began the target-setting procedure for 2014 and also began preparing the target evaluation procedure for 2013. Changes in the Membership of the Management Board as outlined above were also covered by their Agenda as well as running the Mid Term and Long Term Incentives Plans.

The Supervisory Board supported the Management Board in their efforts to protect the interests of HT d.d. in Bosnia and Herzegovina.

Results of the examination of the Management Board report on relations with the governing company and affiliated companies thereof

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Dependent Company), compiled in accordance with Articles 474 and 497 of the Companies Act and in accordance with the principles of conscientious and truthful reporting.

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2013 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

The Company's auditor, PricewaterhouseCoopers d.o.o. Zagreb, reported on the results of its examination of the above report in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Information". Based on the results of their work as described in their audit report, the auditor concluded that nothing has come to their attention that causes them to believe that the above report is not presented, in all material respects, in accordance with the criteria as set out in Article 497 of the Croatian Company Law:

The Supervisory Board has no objections to the results of the auditor's examination of the Management Board Report on relations with the governing company and the affiliated companies thereof.

After considering the Management Board Report, the statement of the Management Board and the results of the auditor's examination, the Supervisory Board states that the Company, according to the circumstances that were known at the time of undertaking the legal affairs and actions stated in the said Management Board Report, received a respective counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2013 and draft decision on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2013.

The Supervisory Board, after considering the audited financial statements for the business year 2013, established that the Company acted in 2013 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2013.

The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The said financial statements are considered adopted by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2013 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit is in accordance with the business results, is in accordance with the business plan for the current year, protects the Company's and shareholders' interests and is in accordance with the positive regulations of the Republic of Croatia. Therefore, the Supervisory Board gave its consent to the net profit utilization proposal of the Management Board, and that is, that the part of net profit in the amount of HRK 736,961,436.00 will be distributed to shareholders as dividend payment, in the amount of HRK 9.00 per share. Furthermore it is proposed that a part of net profit in the amount

of HRK 694,000,000.00 shall be used to increase the share capital from Company's own capital and the remainder of net profit in the amount of HRK 284,388.11 is to be allocated to retained earnings.
The Supervisory Board gave its consent to the following proposals:

- proposal on removal of the nominal value of shares;
- proposal on increase of share capital using the net profit of the Company, by proportionate increase of participation of all issued shares in the Company's share capital and without allocation of new share;
- proposals for amendments to the Articles of Association of the Company referring to the above listed decisions' proposals, and
- proposal for amending the General Assembly decision from 2011 on acquisition of the Company shares, in a way to use the benefit of the Companies Act which allows the withdrawal of shares without nominal value without the share capital of the Company being decreased in which case the remaining shares' participation in the share capital is increased,
- and they are to be referred to the General Assembly of the Company as joint proposals by the Management Board and the Supervisory Board for decision making.

Summary

The Management Board of the Company regularly informed the Supervisory Board of the Company's business, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations.

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2013.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the financial indicators, it was assessed that certain planned parameters were not realized to the full extent due to different impacts (majority of which were unexpected in such extent), as follows: regulatory impacts (decrease of interconnection prices, significant drop in mobile revenue due to EU roaming regulation, regulated broadband retail and IPTV services), GDP drop, falling disposable income, high unemployment, illiquidity and overall market decline. However the Company and whole T-HT Group successfully maintained its leading position in the Croatian telecommunications market across all areas of operation and achieved solid financial results in 2013, in the face of a number of challenges including intensified competitive pressure from bundled telecommunication offers and downward pressure on pricing, falling consumption and continued economic slowdown.

Aside from the financial results for the year 2013, the Supervisory Board considered and approved the Company's business plan for the year 2014 and the Strategic Plan for 2015-2017.

Pursuant to all of the above, the Supervisory Board will deliver to the General Assembly of the Company this Report on the performed supervision of the managing of the Company's business operations in 2013.

Mark Klein
Chairman of the Supervisory Board

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Hrvatski Telekom d.d. (hereinafter referred to as "the Company") has, in accordance with Article 250b, paragraphs 4 and 5 of the Companies Act ("Official Gazette" Nos. 111/93, 34/99, 121/99, 52/00 – Decision of the Constitutional Court of RoC, 118/03, 107/07, 146/08, 137/09, 152/11 – clean text, 111/12 and 68/13), prepared the Annual Report of the Management Board on the Status and Business Operations of the Company and the T-HT Group for the Business Year 2013 consisting of the Annual Report on the Status and Business Operations of the Company and the Consolidated Annual Report on the Status and Business Operations of the Company (hereinafter referred to as "Annual Report"), as well as the Corporate Governance Code Compliance Statement.

Given the fact that the Company's shares are admitted to trading on the official market of the Zagreb Stock Exchange, the Company applies the Corporate Governance Code published on the web-site of the Zagreb Stock Exchange Inc. (www.zse.hr) and on the web-site of the Croatian Financial Services Supervisory Agency (www.hanfa.hr), and in effect as of 1 January 2011.

The Company complies with the recommendations of the Code, with the exception of those that were not, or are not practical for the Company to implement at the relevant time. These exceptions are as follows:

- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Shareholders who are not in a position to vote in person at the Assembly by themselves should at their own discretion determine suitable proxies who are obliged to vote in compliance with the shareholders' instructions (Part 2.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate by means of modern communication technologies. Such participation will be implemented in the future to the extent that it is practical (Part 2.6.).
- The date on which the shareholder becomes entitled to payment of dividend was not set as recommended by the Code. The dividend date was set as the date of the holding of the General Assembly at which the decision on dividend payment was passed as in accordance with the Companies Act (Part 2.8.).
- The Supervisory Board is not composed mostly of independent members. Two out of nine Supervisory Board members are independent members (Part 4.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members' contribution to the Company's business performance (Part 4.7.).
- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 4.12.1. and 4.12.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board. Two remaining Committee members are external experts (one of which is a financial expert, the other is an internal audit expert), both are employees of Deutsche Telekom AG (Part 4.12.3.).
- The Supervisory Board did not prepare an evaluation of its performance in the preceding period (Part 4.16.).
- The remuneration strategy adopted for Management Board and Supervisory Board members is based on the Guidelines of Deutsche Telekom AG, adapted for local needs. The Statement on the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The data on the remuneration of the Management Board and the Supervisory Board is disclosed within the Annual Report (Part 6.3.).

Internal Control and Risk Management

The Audit Committee of the Supervisory Board of the Company was established in April 2002. The Audit Committee's principal responsibilities are the preparation of the decisions of the Supervisory Board of the Company and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within the Company. Revisions to the By-Laws on the work of the Audit Committee were adopted in November 2006, amended in 2008 and adjusted in accordance with the Croatian Audit Act. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

In executing its activities, the Audit Committee is authorized to:

- request the necessary information and supporting documentation from the management and senior employees of the Company and from external workers,
- participate at meetings held within the Company on issues that fall under the scope of activities and responsibilities of the Audit Committee,
- appoint advisors to the Audit Committee on a permanent basis or case by case if needed,
- obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfillment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent audit and control function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). Implementation of the annual Audit Program contributes to the minimization of risks and the improvement of operational efficiency. In September 2013 the Management Board adopted the new Internal Audit Charter, a strategic document for internal audit performance which defines framework and main principles necessary for the work of internal audit function in HT Group, thereby replacing the former Internal Audit Charter and the Audit Manual.

Main tasks of Corporate Internal Audit as defined in the Internal Audit Charter are:

- tests, analyses, evaluates, and communicates data in independent and objective manner in order to add value and improve Company's operations,
- consults and coaches the Company's operations in accomplishing it's objectives in order to evaluate and improve the effectiveness of risk management, control and governance process
- supervises the organization, management and functioning of a unique system of internal control in the Company,
- reviews the application of laws, by-laws and general acts of the Company during audits,
- recommends preventive measures in the area of financial reporting, compliance, business and control in order to eliminate risks and eventual deficiencies that could lead to process ineffectiveness, inefficiency or fraud.

Significant Company Shareholders

As at 31 December 2013, according to the list of the top ten shareholders of the Company published by the Central Depository & Clearing Company, significant Company shareholders are as follows.

The majority owner of the Company is T-Mobile Global Holding Nr. 2 GmbH (a company 100 per cent owned by Deutsche Telekom AG), with 51 per cent of total outstanding shares. Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), established by the Republic of Croatia in July 2013 as a legal successor to the Government Asset Management Agency, owns 3.5 per cent of shares of the Company. The Croatian War Veterans' Fund owns 7.0 per cent of shares, while the remaining 38.5 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors. Raiffeisen obvezni mirovinski fond (Raiffeisen Mandatory Pension Fund) is the investor with the largest shareholding among the private and institutional investors. As at 31 December 2013 Raiffeisen obvezni mirovinski fond had 7.7 per cent shares of the Company. An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser).

Mr. Ivica Mudrinić, President of the Management Board of Hrvatski Telekom d.d. until 31 December 2013, owns 8,500 shares in total; Mr. Davor Tomašković, President of the Management Board of Hrvatski Telekom d.d. as of 1 January 2014, owns 69 shares in total; Mrs. Irena Jolić Šimović, Management Board Member of Hrvatski Telekom d.d., owns 45 shares in total; Mrs. Nataša Rapaić, Management Board Member of Hrvatski Telekom d.d., owns 204 shares in total and Mr. Damir Grbavac, Supervisory Board Member of Hrvatski Telekom d.d., owns 69 shares in total.

Appointment of the Management Board, its functions and the amendments to the Articles of association

The Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. Pursuant to the Company's Articles of Association, the Management Board consists of between five and seven members. Current composition of the Management Board includes seven members: the President of the Management Board (CEO); MB Member and Chief Operating Officer (COO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Information Officer (CTIO) and MB Member and Chief Human Resources Officer (CHRO).

The Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services, organized into two business units, Business and Residential.

The Management Board needs prior approval from the Supervisory Board for the proposal of any amendments to the Articles of Association at the General Assembly.

Authorities of the Management board members

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board has responsibility for managing the business affairs of the Company. It is obligated and authorized to perform all the activities and to pass all the resolutions that it considers necessary to successfully manage the business affairs of the Company, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions, under the Articles of Association of the Company.

Under the Articles of Association, the Company may be represented by any two members of the Management Board jointly.

The Management Board was authorized by respective General Assembly decisions from 2009, 2010 and 2011 to acquire Company shares, with associated prior approval of the Supervisory Board to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions. In line therewith, the Management Board adopted in 2012 the Treasury share buyback program for the purpose of realization of the long-term incentive plans for senior management. In accordance with the said Program, the Company acquired at the Zagreb Stock Exchange 1,931 Company shares in May 2012 and 2,000 shares in May 2013, holding 3,931 treasury shares in total on the day of issuance of this Statement.

The composition and functions of the Supervisory Board

Pursuant to the Company's Articles of Association, the Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Company's employees. The Supervisory Board is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board. The Supervisory Board established the Compensation and Nomination Committee and the Audit Committee. In July 2013 the Supervisory Board established the Sustainability Committee for the purpose of overseeing the implementation of the guidelines and internationally accepted standards of reporting on sustainability.

BUSINESS REVIEW 2013

Croatian Telecommunications Market Overview
Regulatory Environment
Group's Strategy
Organization of the Group
Business Units
Network and Information Technologies
Transformation

CROATIAN TELECOMMUNICATION MARKET OVERVIEW

Good results despite challenging macroeconomic conditions and pressure from competition

HT Group successfully maintained its leading position in the Croatian telecommunications market across all areas of operation in 2013, in the face of a number of challenges including intensified competition, falling consumption, and continued economic slowdown.

Notable events in 2013 include the following:

- February 2013 - a virtual shop, ICT Marketplace, presented at the Mobile World Congress in Barcelona
- March 2013 - new mobile tariffs launched bundled with a multimedia package (Deezer music streaming, MAXtv To Go, and Spremalica, content storage solution)
- May 2013 - HT launched its first LTE-based offer for prepaid customers
- July 2013 - HT filed notification to the Croatian Competition Agency (AZTN), based on the proposal of financial and operational restructuring of Optima Telekom ("OT") within the pre-bankruptcy settlement process, as one of OT's largest creditors
- September 2013 - HT further extended coverage of its most advanced 4G network based on LTE technology in Pula, Umag, Sinj, Imotski, Dubrovnik, Virovitica, Vinkovci, Bjelovar, and Vukovar
- September 2013 - HT and Deutsche AG affirmed their leadership in the next generation Internet infrastructure by proving multi-vendor interoperability on a 100Gbit/s long haul DWDM* link in the TeraStream pilot network in Croatia
- October 2013 - HT opened its T-Center at Petar Preradović Square 3 in Zagreb as the first sales center designed to the highest technological and aesthetic standards according to the "For the Gigabit Society" concept
- November 2013 - HT won the bid for the 806-811/847-852 MHz block. With this additional acquisition of spectrum, HT confirmed its strategy of investing in network and new technologies that will ensure its customers have access to top quality network and services in whole Croatia
- November 2013 - HT launched the MAXobitelj bundle, including fixed and mobile telephony and TV as well as mobile broadband. The MAXobitelj bundle offers unlimited surfing and unlimited calls within HT's fixed network and a broad range of exclusive TV content.
- December 2013 - HT started offering electricity to households and companies, on the most favourable terms currently available
- December 2013 - HT refreshed its Ultra MAX offer with packages based on the FTTH technology offering 10 times higher speeds compared with MAX2/3 packages for residential customers

Market trends

Croatia's accession to the EU had a major impact on the roaming environment. EU roaming regulation has been in force since 1st July 2013, resulting in voice roaming prices reduced more than 3 times, SMS roaming prices reduced by 3.5 times, while data roaming prices reduced by 10.7 times. These price decreases had a negative impact on visitor roaming and retail revenue trends.

Negative economic trends, EU roaming regulation, the continuation of flat rate tariff offers and mobile Internet promotions including tablets impacted trends in the mobile market in 2013.
The mobile market continued to decline in 2013 under the impact of regulation, increased price competition, mobile market saturation and delayed economic recovery. Mobile broadband recorded growth in 2013 as a result of increasing smartphone and tablet penetration and increasing demand for mobile data.
The fixed broadband market continued to grow, while further consolidation in the fixed market strengthening the increasingly competitive environment even more.

A number of Croatia's alternative operators have entered pre-bankruptcy proceedings, having been negatively affected by economic, regulatory and competition-based factors, so further consolidation in the telecommunications market is expected.

The Croatian Post and Electronic Communications Agency (HAKOM) unveiled its decision on the assignment of the unallocated radio frequency spectrum (the remaining digital dividend) on the 801-811 and 842-852 MHz band, divided in 2x5 MHz blocks. HT was granted the block of 806-811/847-852 MHz.

The Croatian IT market demonstrated a negative trend in 2013 owing to economic pressures. This marks the fifth consecutive year IT spending decreased in Croatia. Further weakening of economic conditions, problems with financing of the state budget, and a further increase in unemployment affected domestic IT spending in 2013. The Croatian IT market is estimated to show a decline of 3.0% 2013[1]. Against a backdrop of the negative overall trends on the IT market in Croatia, however, some segments – such as smartphones, tablets, cloud services and data center equipment - are showing growth.

Macroeconomic trends

Fifth consecutive year of economic contraction with no recovery in sight

The Croatian economy has been undergoing continuous contraction for five consecutive years. Croatian GDP growth in 2013 is expected to

[1)] Source: Source: Croatian IT market 2013 and 2014: Revised Forecast, IDC Adriatics, December 2013 be reported at -0.8%[2]. Gradual economic recovery could be driven by a higher rate of exports and significant foreign direct investments, but there is a high degree of uncertainty whether that can be achieved in the near future.

Employment in Croatia also continued to fall in 2013 for the fifth consecutive year. The average annual registered unemployment rate in 2013 is expected to increase to a yearly average of 20.3%[3] (which is 1.2% higher than the average unemployment rate in 2012). The rising unemployment rate had a negative impact on personal consumption, which has been estimated to have declined by 0.7% in 2013[4], while disposable income also declined further to average HRK 5,396 in 2013[5].

Industrial production is expected to have declined by 2.0%[2] in 2013 owing to business contraction and declines in exports.

The average inflation rate, measured by Consumer Price Index (CPI), is expected to have slowed to 2.3% in 2013 from 3.4% in 2012 because of decreasing prices of import[7].

Fixed-line market

HT continues to lead the market despite competitive pressure

Fixed telephony remains highly competitive in Croatia, with 13 operators active in the market [8].
In addition, market consolidation in 2013 further increased competitive pressure from bundled telecommunications offers.
Competitive pressure notwithstanding, T-HT successfully maintained its leading position in the fixed line market, reflecting the Group's continuing dedication to high-quality services and improved offers.
Fixed voice usage showed a further decline at the same time as fixed broadband and mobile usage increased. The number of fixed-line minutes of use (MOU) decreased by 17.7% in the first nine months of 2013 compared with the same period in 2012 [9].

Mobile telecommunications

Successfully maintained number one position in mobile market

Through a range of brands, the Group maintained a leading market position in a saturated mobile market, served by three operators. Mobile penetration is estimated to have reached 115.6% and the Company's share of total mobile customers is estimated at 46.6% at the end of 2013. All mobile operators intensified efforts to increase their share of postpaid customers within their customer bases.

Despite increased mobile usage, mobile revenue continued to display a declining trend due to lower mobile termination rates and intense pricing pressure as prices continue to slide, while tariff bundles increased. Further falls in mobile revenue were caused by the EU roaming regulation that came to force on 1 July 2013.

Total Croatian mobile market minutes of use (MOU) increased by 24.8% and the number of SMSs sent increased by 9.6%[10] in first nine months of 2013 compared with the same period in 2012. Mobile data continued to grow with all three mobile operators promoting voice-messaging-data bundled tariff offers alongside increasing smartphone and tablet offers.

Internet

Converged trends in fixed market led to fixed broadband and pay TV growth

The Croatian fixed broadband market continued to grow in 2013, with 915,705[11] fixed broadband connections Q3 2013. The market grew 4.1% compared with the end of Q3 2012. DSL is still the dominant broadband technology. At the end of 2013, T-HT Group had 628,414 broadband access lines.

The Croatian broadband market still represents a growth opportunity for T-HT with an estimated 50% of Croatian households connected to fixed broadband network compared to an average of 67% in Western Europe[12].

The Croatian pay TV market grew by 13.2% in first nine months of 2013, against the same period in 2012, reaching 683,014 customers[13].

Data

Continued migration to IP-based services

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

Wholesale

High demand for wholesale services provided to alternative fixed operators

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remained high in 2013. The number of broadband wholesale customers (BSA and Naked BSA) reached 41,242 at the end of 2013. In addition, significant demand for Unbundled Local Loop (ULL) continued, and the number of customers increased to 172,639 at the end of 2013. Number of Wholesale Rental Lines (WLR) increased to 118,154. In January 2013, wholesale prices were amended for the following regulated services: call origination, fixed and mobile call termination. Additional prices for BSA and Naked BSA were amended in July 2013.

2) Source: Croatian National Bank, Dec. 2013
3-6) Source: Raiffeisen Research, Dec. 2013
7) Source: Croatian National Bank, Dec. 2013
8) Source: Croatian Post and Electronic Communications Agency, June 2013
9-10) Source: Croatian Central Bureau of Statistics, December 2013

11) Source: Croatian Post and Electronic Communications Agency, December 2013
12) Source: Analysys Mason
13) Source: Croatian Post and Electronic Communications Agency, December 2013

REGULATORY ENVIRONMENT

The Croatian Law on Electronic Communications, which replaced the previous Law on Telecommunications, has been in force since 1 July 2008. The law transposed the 2002 EU Regulatory Framework onto Croatia's electronic communications market and has since undergone three rounds of amendments.

The first amendments to the Law on Electronic Communications were adopted by Croatian Parliament in July 2011 and came into force in August 2011. The purpose of these amendments was to align Croatia's electronic communications market with the EU Regulatory Framework of 2009.

The second set of amendments to the Law on Electronic Communications was adopted by the Croatian Parliament in November 2012 and came into force in December 2012. These were designed to reduce the members of the Council of Croatian Post and Electronic Communications Agency (hereinafter: the Agency) from seven to five.

The third round of amendments was adopted in June 2013, primarily aimed at aligning Croatian Law on Electronic Communications with the EU regulatory framework in the area of roaming regulation.

To date, the Agency has adopted several by-laws prescribing the terms and conditions for the provision of electronic communications services in Croatia.

In line with the Croatian regulatory framework, and in line with the latest EU recommendations, the Agency can impose regulatory remedies only after proper market analysis and determination of the existence of significant market power (SMP). Currently, the Company holds SMP in the following markets:

1. call origination in the fixed network,
2. call termination in the fixed network,
3. wholesale (physical) network infrastructure access (including shared or fully unbundled access),
4. wholesale broadband access,
5. call termination in the mobile network,
6. wholesale terminating segments of leased lines,
7. wholesale trunk segments of leased lines (non-competitive lines)
8. retail access to the public communications network at a fixed location,
9. publicly available local and/or national telephone service provided at a fixed location for residential customers,
10. publicly available local and/or national telephone service provided at a fixed location for non-residential customers,
11. retail broadband Internet access (regulated as of 23 March 2012),
12. retail market for transmission of TV programs with remuneration - IPTV market (regulated as of 23 March 2012).

In these markets, the following remedies are applied:

- in markets 1 - 7: network access and use of special network facilities (this obligation is extended to the Company's optical fibre access network), non-discrimination, transparency, price control and cost accounting, accounting separation (applies only to the Company's fixed business)
- in market 8: network access and use of special network facilities (obligation to offer wholesale line rental - WLR), non-discrimination, transparency, price control and cost accounting (notification of retail prices 30 days in advance; prohibition of unreasonably bundled services - introduction of naked DSL, provision of "pure" network access); accounting separation; in line with these obligations, the Company published wholesale reference offers for naked bitstream and WLR in June /July 2011
- in markets 9 - 12: price controls and regulation of promotional offers were imposed upon the Company and Iskon.

The Agency conducted the first round of market analysis in the period 2009-2012. The second round of market analysis was undertaken and completed in June 2013. As a result of the second round of market analysis of wholesale markets under 1, 2 and 5 above, the Company published the new wholesale reference offer for call termination in the mobile network which became applicable on 30 June, 2013 and the new wholesale reference offer for fixed interconnection (call origination and call termination in fixed networks) which became applicable on 1 August, 2013.

In addition, the second round of market analysis for markets under 3 and 4 above introduced the geographical segmentation of the Republic of Croatia into Type 1 and Type 2 areas, applicable to so- called fibre (FTTx) regulation.

In Type 2 areas, softer regulation applies to FTTH and FTTN networks (e.g. the Company can have commercial wholesale prices for FTTH services, shorter notification periods for FTTN reconstruction apply, retail promotion restrictions for FTTH products do not apply in Type 2 areas).

In line with the obligations imposed in the second round of market analysis for markets 3 and 4 above, the Company published wholesale reference offers for wholesale (physical) network infrastructure access (including shared or fully unbundled access) and wholesale broadband access (BSA) on 2 September, 2013, with effect as of 1 October, 2013.

The Company retains SMP status defined under the old legal framework (i.e. under the Law on Telecommunications that was replaced by the Law on Electronic Communications in 2008) in the retail market for leased lines. In 2010, the Agency initiated a market analysis procedure for this market according to EU rules, with finalization expected in Q1 2014 (according to the Agency announcement).

In June 2013, the Agency finalized its own cost models for the fixed/mobile network (development of cost models was initiated in third quarter of 2011). Consequently, in 2013 the Agency adopted several decisions determining cost oriented prices for the Company's wholesale products in the fixed and mobile network:

a) In June 2013, the Agency adopted a decision on the reduction of the Company's mobile termination fees, based on results from the cost models. Mobile termination fees were decreased to:

- National mobile termination (for calls originated in a national operator's network and terminated in the Company's network directly or indirectly via a national operator): 0.1933 kn/min (from 1 July 2013), 0.1282 kn/min (from 1 January 2014), 0.063 kn/min (from 1 January 2015)
- International mobile termination for calls delivered from a national/EU/EEA operator's network, regardless of the network where the call is originated: 0.45 kn/min (from 1 July 2013), 0.32 kn/min (from 1 July 2014), 0.063 kn/min (from 1 January 2015). International mobile termination for calls directly delivered from an international operator's network of country that is not an EU/EEA member remained unregulated.

b) In June 2013, the Agency decreased the Company's wholesale BSA prices for ADSL/VDSL technology based on results derived from the Agency's cost models. In December 2013, the Agency held a public consultation on cost orientation of all BSA prices for services based on the copper and fiber network; new prices based on the Agency's cost models are expected to come into force in Q2 2014 after clearance by the European Commission.

c) In December 2013, the Agency adopted a decision on the reduction of the Company's fixed termination/origination fees, based on results from the cost models. Fixed termination/origination fees were reduced to:

- Local termination fees in fixed (peak/off peak): 2.67 lp/min/1.33 lp/min (from 1 January 2014), 1.63 lp/min / 0.82 lp/min (from 1 July 2014), 0.60 lp/min / 0.30 lp/min (from 1 January 2015)
- Local origination fees in fixed (peak/off peak): 3.16 lp/min / 1.58 lp/min (from 1 January 2014), 2.32 lp/min / 1.16 lp/min (from 1 July 2014), 1.48 lp/min /0.74 lp/min (from 1 January 2015)
- Regional termination fees in fixed (peak/off peak): 3.87 lp/min / 1.93 lp/min (from 1 January 2014), 2.23 lp/min / 1.12 lp/min (from 1 July 2014), 0.60 lp/min /0.30 lp/min (from 1 January 2015)
- Regional origination fees in fixed (peak/off peak): 4.36 lp/min / 2.18 lp/min (from 1 January 2014), 2.92 lp/min /1.46 lp/min (from 1 July 2014), 1.48 lp/min /0.74 lp/min (from 1 January 2015)
- National termination fees in fixed (peak off peak):7.33 lp/min / 3.67 lp/min (from 1 January 2014), 3.97 lp/min / 1.98 lp/min (from 1 July 2014), 0.60 lp/min / 0.30 lp/min (from 1 January 2015)
- National origination fees in fixed (peak/off peak): 7.89 lp/min / 3.95 lp/min (from 1 January 2014), 4.69 lp/min / 2.34 lp/min (from 1 July 2014), 1.48 lp/min / 0.74 lp/min (from 1 January 2015)

d) In December 2013, the Agency adopted a decision on the determination of cost-oriented pricing for the wholesale unbundled local loop service (ULL) based on results from its cost models. The new cost-oriented ULL pricing was defined, with the maximum amount set at HRK 57.30. The Company can increase the current ULL price (HRK 43.16) to the cost-oriented level of 57.30 HRK, on condition that there is a sufficient margin in comparison to the Company's retail prices, which must be substantiated by the appropriate margin squeeze test.

In January 2013, the new Universal Service Ordinance, adopted by the Agency, came into force. Under this Ordinance, the Agency extended the USO scope to include broadband access at a minimum speed of 144 kbit/s. Consequently, the Company is obliged to offer broadband access with a defined speed as a part of its universal service obligation. Additionally, the Company will be obliged to offer broadband access at a minimum speed of 1 Mbit/s as a part of its universal service obligation as of 1 January 2015.

In November 2013, the Agency adopted a decision on the assignment of the remaining "digital dividend" in the 800 RF spectrum. Under this process, the Company was assigned one 2x5 MHz block (806-111/847-852 MHz) for the period until 18 October 2024. The Company had already acquired a license for the block of 852-862 MHz for the period from 29 October 2012 until 18 October 2024.

Accounting separation (this applies only to the Company's fixed business): the cost accounting project, initiated at the end of 2008, is ongoing.

GROUP'S STRATEGY

T-HT Group Vision

T-HT – Driving adoption of an online society and digital economy in Croatia and the Region

T-HT is the leading digital solution provider that powers the online society and digital economy in Croatia and the Region.

T-HT Group Strategy

Our strategy centers around three key pillars:

GROW – COMPETE – TRANSFORM

GROW focuses on developing business opportunities around mobile and fixed Internet, online consumer services, ICT, media, advertising and innovative services arising from advances in technology and business.

COMPETE ensures the Group's continued focus on its existing fixed and mobile telecommunications business by enhancing our core offers and leveraging our high quality networks.

TRANSFORM refers to a radical process of e-transformation involving the shift to online of both internal and external business processes; the next phase of customer care, targeting customer satisfaction and organizational efficiency; network transformation through the migration to all-IP technology; and an improved cost structure across all core operations.

To fulfill the goals outlined above, the Group has identified the following key focus areas:

- Customer experience
- Revenue growth and changes in revenue structure
- Business model transformation
- Efficient organization
- Empowered organization
- Operational excellence

Talent management and strategic workforce management

In a rapidly changing industry and with the strategic focus on new services and networks, T-HT continues to invest in new skills, talent management, education and training of staff. In this way, we are able to attract and retain the best people to help us build our business.

Regional expansion

The Group continues to monitor and evaluate expansion opportunities.

ORGANIZATION OF THE GROUP

New Group organization focused on strengthening e-business

The Group comprises the customer facing Business and Residential units and centralized technical functions (CTO/CIO), support and steering functions (CEO, CFO and CHRO), operating functions (COO) and subsidiaries including Combis d.o.o., Iskon Internet d.d., KDS d.o.o. and E-tours d.o.o..

Residential unit

The Residential unit is headed by the Chief Operating Officer Residential (COO Residential), and incorporates Residential Marketing and Sales.

Business unit

The Business unit is headed by the Chief Operating Officer Business (COO Business), and incorporates Business Marketing, Corporate and SME Sales and ICT Business Solutions.

Chief Executive Officer

The Chief Executive Officer (CEO) has particular responsibility for Corporate Strategy and Business Innovation, New Business Development, Corporate Legal and Regulatory Affairs, Compliance, Corporate Communication and Investor Relations, Internal Audit, Security and Content Development and Management.

Chief Operating Officer

The Chief Operating Officer (COO) has responsibility for Customer Service, Wholesale and sectors supporting e-business, e-company and transformation.

Chief Technical and Information Officer

The Chief Technical and Information Officer (CTIO) oversees the technical activities of the Group and is responsible for Investment Management and Operating Support, Information and Business Systems, Telecom Infrastructure Services, Services and Network Systems Development and Service Management and Network Operations.

Chief Financial Officer

The Chief Financial Officer (CFO) has particular responsibility for Controlling, Accounting, Corporate and Customer Finance, Procurement and Logistics and Real Estate.

Chief Human Resources Officer

The Chief Human Resources Officer (CHRO) is responsible for Business Partnering, the Competence Centre, Shared Services, Compensations, Benefits and Labour Cost Management, and Strategy and Strategic Workforce management.

The organizational structure of the Group is as follows:

- Management Board
- Customer Facing Units / Support and Steering Functions / Technical Functions / Chief Operating Officer Functions
- Sectors
- Departments
- Work Units

BUSINESS UNITS: RESIDENTIAL AND BUSINESS

On 1 January 2010, the former divisions of T-Com and T-Mobile, serving the fixed and mobile markets respectively, were replaced by a new structure based on the Residential and Business segments. Starting from the first quarter of 2011, segmental reporting was introduced along these lines.

In its financial reports, the Group's segments are reported by contribution to EBITDA level.

Residential Segment

Overview

- HT keeps its leading position in the mobile, fixed and IP market
- HT awarded with golden QUDAL medal for best quality provider in 11 different telecommunication services categories
- Launch of MAXobitelj converged offer
- Launch of innovative PLAN tariffs with unique Multimedia package
- Deezer, leading global music service, introduced for HT customers as part of new PLAN tariffs
- Prepaid segment with focus on additional value for HT customers
- Continuous MNP and retention efforts both in postpaid and prepaid segment
- Continuing promotion of 4G mobile Internet
- Continuing development of MultiPlus mobile
- Postpaid segment offer launched from bonbon
- 520 thousand Broadband access retail lines and 369 thousand TV customers
- MAXadsl "double speed" promo offer for HT fixed segment
- Launch of HotSpot Fon service, part of the largest global WIFI network Fon
- FTTH launch: introducing 40 Mbps access speed on Fiber portfolio

Major achievements in 2013

Year 2013 for HT was marked with overall acknowledgment of HT quality perception by Croatian telecom services customers. QUDAL research, published in May, awarded HT with golden medal as best quality provider in 11 different categories. Among these categories, research has shown that Croatian residential customers consider HT to be "best on market" provider in new generation digital television, mobile and fixed telephony and internet services. This acknowledgment shows that Croatian customers trust in quality of services provided by HT and was therefore incorporated in HT promo campaign for fixed and mobile segment launched in Q2 2013.
Following the path of bringing innovation and quality first-to-market, as a part of Christmas campaign and unique corporate T brand communication, HT introduced MAXobitelj, advanced, integrated offer that combines the best of HT fixed and mobile services (fixed and mobile telephony, TV as well as fixed and mobile broadband). The offer was accompanied by attractive handsets and tablets offers providing an integrated communication solution on which customers can rely whenever, regardless their location and device.

Year 2013 was also marked with HT launch of new innovative PLAN tariffs in 2nd half of March. PLAN offer is designed to satisfy various customer needs in different categories – ranging from those who wish to use their handset only for calls and SMS to those who wish to have a complete online experience using LTE speeds providing up to 10 times faster Internet access.

PLAN tariffs additionally bring a significant innovation to the market offering customers a unique Multimedia package with Deezer (leading global music service), MAXtv To Go (with premium and exclusive TV content) and Spremalica (with 10GB free private online space for data storage). Also, PLAN tariffs include a significantly enhanced volume of data, SMS and minutes of voice. Additionally new communication campaign for Plan za Surfanje L started in the middle of September accompanied by attractive Samsung handset offers.

New PLAN tariffs allow HT customers to use their handset potential to its fullest while satisfying their own needs for premium, exclusive, popular and entertaining multimedia content such as Deezer which offers more than 20 million songs available for streaming or downloading.
HT continued with Value added services boost by introducing Parental control service campaign in September, offering Internet content filter for smartphones at a price of HRK 1 per month, for first two months of usage. Offer is followed by attractive handset offers as well as surprises for fastest buyers. Furthermore, new road assistance service with partner Oryx was introduced in July, both for national and international travellers, bookable via SMS.

Launch of PLAN tariffs was followed by Mobile net tariff promotional campaign introduced in May. Promo offer was incorporated as part of an integrated campaign for fixed and mobile segment, communicating benefits of HT Internet offers for both segments along with QUDAL acknowledgments. Mobile net promo included double data packages for HT customers and was accompanied by 3G tablets attractive offer. In 2013 HT continued with continuous MNP and retention efforts in postpaid and prepaid segment.

Christmas offer was launched both for postpaid and prepaid segment. For postpaid customers HT introduced attractive 50% off offer on most popular Samsung handsets and VAS option for 12 months (Multimedia package, MAXtv To Go, Deezer, Road Assistance and 4G+ option). Furthermore, promotion of ''roam like at home'' was done within Travel & Surf option (week pass) for a price of HRK 99 for ski season. In prepaid segment, promotion around T-prepaid was accompanied by attractive smartphones and tablets offers with additional 2GB after 1st recharge, like Huawei Y300 for HRK 598 or Vivax tablet for HRK 498. Prepaid Christmas offer was followed by successful prize winning game.

Simpa continued with its successful and attractive "Prejaka" option offer for its users – unlimited text messages, 1GB mobile internet and a thousand minutes for cross net calls at a very affordable price. Also, Simpa double recharge offer was additionally promoted through a Christmas campaign and was accompanied by a prize winning game and attractive handsets offers.

In June, bonbon introduced its new postpaid offer - voice, text and data packages free to combine according to customers' needs. Among other well-known bonbon benefits, new postpaid users are also able to get 1,000 minutes and 1,000 SMS until 2020 and can set their spending limit according to their possibilities. Bonbon postpaid offer therefore brings its customers additional value, but without any unwanted surprises regarding their bill.

In addition, bonbon continued through its successful path in prepaid segment with a promo offer (1,000 on net minutes for only HRK 1 until the end of 2014). Moreover, bonbon customers are able to receive 50% discount on first monthly package for every top up with HRK 80 or 50 % discount on two monthly packages for every top up with HRK 160.

Multiplus mobile, a MVNO brand launched in 2012, continued in 2013 with various promotions.

Prior to Croatian EU accession and new roaming regulation, HT also launched, both for prepaid and postpaid segment, new Travel & Talk and Travel & Work options offering international calls and data packages at affordable prices for its customers providing them with worry-free communication across borders.

In 2012 HT was first on the market to finish the commercial launch of its new 4G network based on LTE technology and currently offers the largest availability of 4G network in Croatia. HT has further expanded the coverage of its 4G network based on LTE (Long Term Evolution) technology. In 2013 additional promotion of mobile Internet tariffs based on 4G network continued to be accompanied by new Mobile net portfolio launch with higher value (e.g. MAXtv To Go) and attractive offers of latest smartphones like Samusng Galaxy Tab with additional discounts through HT web shop. HT was also first on the market with offering 4G network based on LTE technology and 4G handsets to prepaid customers.

In 2013 fixed segment was also marked with innovations, premium content offers and various promotions.

As part of previously mentioned integrated campaign for fixed and mobile segment which also communicated QUDAL acknowledgements for HT, MAXadsl "double speed" promo offer was launched in May providing all new and existing HT MAXadsl customers, MAX2 Internet and MAX3 customers two times faster and more affordable Internet usage. Furthermore, new summer offer was introduced offering to all HT fixed Internet customers flat mobile Internet for HRK 25 per month. Offer was accompanied by Huawei MediaPad 7, available from HRK 98 and Multimedia package (available on tablet, smartphone, laptop or PC for only HRK 1 during summer months). Further ADSL higher speed promo campaign was launched as part of Christmas campaign offering 3G Samsung Galaxy 3.0 Tab at price of HRK 199.

At the beginning of February MAXtv Sat promo campaign was launched offering new MAXtv Sat customers 50% discount on Basic or Basic Extra package monthly fee for a whole year and 1 month of using additional packages free of charge (HBO & Cinemax package and Sport Plus Package) for activations during promo period.

In February, HotSpot Fon service, part of the largest global WIFI network Fon, was launched by HT which enables its customers to use over seven million Fon hotspots in over 100 countries worldwide for free. Moreover, new hotspots were opened in Q4 of 2013.

Try&Buy MAXtv promo launched in September continued offering 6 months MAXtv basic package for a price of HRK 1 per month for all new MAXadsl customers who prolong their contract. This offer is promoted within overall communication of MAXtv benefits with special focus on exclusive sports content such as: 1st Croatia national league, Champions league and Europe league. Additionally, Instrukcije.tv was introduced in October as a part of MAXtv offer in order to boost content diversity. Instrukcije.tv is intended to elementary and high school students and includes math instructions which follow official school program.

MAXtv To Go service is following on its successful development from 2012. All new MAXtv To Go customers in February participated in a prize winning game where they were given an opportunity to win tickets and trip to Champions League match Bayern-Arsenal in Munich.

In December, new Fiber offer was introduced providing 40Mbs as basic FTTH speed and 10Mbps as additional option. ULTRA MAX packages attractive promo offer launched in Q4 offers 10 times faster Internet in first 3 months of usage for a price of MAX2/3 package with 12 or 24 month contract duration.

Mobile customer base decreased by 1.4%, from 1,859 thousand customers end of year 2012 to 1,833 thousand customers end of year 2013, mainly as a result of aggressive competitors offers and decrease of customers with double SIM cards due to continuing trend of favourable flat and cross net offers. Number of postpaid customers is 9.7% higher than in 2012 as a result of overachievement of new tariffs. However, number of prepaid customers is 6.4% lower than in 2012 due to overall decline of prepaid market.

Minutes of usage per average customer at the end of 2013 increased by 28.0% compared to the 2012 due to introduction of flat offers and offering of bundles with high amount of minutes in postpaid and prepaid tariffs.

Blended ARPU decreased by 3.9% as a result of very competitive market driven by attractive offers for customers.
By the end of 2013, total fixed access mainlines of 973 thousand are 5.8% lower than end of 2012. Decline is enhanced by the telecommunication

market trend of fixed to mobile and IP substitution, regulation and enforced competition. Fixed telephony users generated 1,573 million of minutes in 2013. That is 14.7% lower than the last year as a result of customer base shrinking and F2M substitution.
Fixed voice ARPA decreased by 7.5% as a result of mentioned general market trends.

At the end of 2013, number of broadband retail accesses decreased by 1.1% to 520 thousand. At the same time broadband retail ARPA increased by 1.8% due to increased share of customers with packages including higher traffic and higher access speed (contributing with higher subscription fee).

TV customer base is growing steadily. At the end of 2013, 369 thousand customers were achieved which is 7.3% increase from last year. TV ARPU is 6.2% above last year driven by premium content (additional packages, video on demand etc).

Satellite TV, which is an extension of classical IPTV service, continues to grow with continuous improvements in offer providing more value for the customers and is expected to contribute significantly to the overall TV success.

Business Segment

Overview

- HT keeps leading position in all segments
- Retail revenue declined YOY due to lower mobile price per minute and fixed voice usage, following market trends
- ICT revenue is constantly growing, further development of Cloud services portfolio and Marketplace
- Broadband, TV customer and IP Data customer base is growing in 2013
- New mobile tariff portfolio for business customers launched "Plan za posao"
- Ultra packages were launched in April, based on FTTH technology
- MAX3 packages were launched in July, offering telephone, Internet and TV to the customer in one package

Major achievements in 2013

Mobile customer base is 0.5% above last year. Minutes of use per average customer are 2.1% above last year due to significant growth of termination minutes per customer, while originating minutes are decreasing.
Due to economic situation and EU regulations on roaming prices, which started on 1st of July, blended ARPU is 17.0% lower compared to the last year. However, blended non-voice ARPU has increased 7.1 % with smartphones penetration.

New tariff portfolio for business customers entitled "Plan za posao" was launched at the end of Q1. New tariffs offer unlimited calls to T-Com and T-Mobile community, flat Internet and attractive packages of messages and minutes towards other networks, depending on the tariff model. Additionally, higher tariffs include roaming and international minutes, mobile phone insurance and flat mail service. Lower tariffs include auto activated Internet option preventing large phone bills.

New flat option was launched, additionally offering unlimited calls and messages to all networks. With the new tariff portfolio business customers are offered various discounts depending whether they are prolonging their contract, transferring their number from another network or choose a tariff model without purchasing a mobile phone.

In April, "Plan za posao" tariffs were additionally enhanced with special offer "Plan za poslovnu obitelj" enabling business customers to add prepaid users to their postpaid group accounts, targeting seasonal workers and family members.

"4G" option was introduced to enable 4G surfing on LTE mobile devices.

In Q1 and Q3 new and existing business customers willing to sign contract for Mobile Internet L or Mobile Internet XL tariff got benefit of 50% discount on tariff monthly fee during 6 months with minimal contract duration 12 months or 12 months with minimal contract duration 24 months.

According to a promotional offer for Mobile Internet launched in May, all new and existing business customers willing to sign contract for Mobile net S, M, L, XL tariff got benefit of double data traffic in their tariff during whole contract obligation period. Mobile net S tariff in this offer is valid only for existing customers. Also, all new and existing customers willing to sign contract for Ultra Mobile net L, XL tariff got benefit of discounted monthly fee during whole contract obligation period.

In addition, all new and existing business mobile customers were offered with new service "Podijeli net" that allows additional data customer to use data traffic included in existing voice tariff monthly fee.

In Q4 new portfolio of Mobile net tariff was launched (Mobile net Day, Mobile net M+, Mobile net L+, Ultra Mobile net XL+). Only Mobile net XL+ has full 4G speed included. In tariff Mobile net L+ it is optional upon customers request and with additional monthly fee. In other tariffs, 4G is not enabled. Tariff portfolio is valid for all new and existing customers and there is no possibility of activation old tariff portfolio.

HT's fixed retail customer base is developing in line with general trends on telecommunication market, due to fixed to mobile substitution, IP migration and it is heavily impacted by general economic situation. With 160 thousand lines, it is 8.7% lower than in the last year.

As a result of lower customer base, due to above described effects, total fixed traffic is 28.9% lower than last year. Fixed voice ARPA decreased 15.1% to HRK 184 in comparison to the last year.

Broadband retail customer base is 1.0% higher than in the last year reaching 108 thousand. ARPA is slightly below 2012.

At the beginning of February for contract prolongation on ADSL a permanent offer was introduced. In special offer for contract prolongation on ADSL or contract prolongation on ADSL + Business flat, customers willing to sign 12 or 24 months contract could buy attractive gadget at promotional prices.
New retail package was introduced as universal service for broadband Internet access with at least 144 Kbps access speeds, named MAXnet mini.

ADSL access price and offer change for business customers launched in April. Current ADSL access speeds offer “up to 10Mbps / 640Kbps” and ”up to 20Mbps / 768Kbps” are replaced with following speeds “up to 10Mbps / 1Mbps” and “up to 20Mbps/ 1Mbps”. New permanent offer is introduced to business customers of ADSL access speed up to 10Mbps. They are one time entitled to use two-month period of 10Mbps ADSL access at price of 4Mbps ADSL access or 20Mbps at price of 10Mbps ADSL access.

Business Ultra packages were launched in April, based on FTTH technology.

In Q3, business MAX3 packages were launched in July, offering telephone, Internet and TV to the customer in one package.

In Q4 changes in Poslovni Ultra MAX packages for business customers were introduced. Basic speed included in all Ultra MAX packages was changed from 20/5 Mbps to 40/10 Mbps. Ultra MAX package could be upgraded on speed 100/20 Mbps through additional speed option. The existing Business Ultra MAX2 package was upgraded with additional services included in package.

New Business Ultra MAX3 package for business users and additional package of Internet traffic 250 GB was introduced.

TV customer base has grown by 7.3% to 22 thousand customers because of continuous service and program offer improvement.

From the beginning of the year, promo offer is available to new DTH (Direct-to-home satellite dish) users. Customers willing to sign 24 months contract during this promo offer got 50% off on monthly fee for the first 12 months. Minimal contract duration for the new customers is 12 or 24 months.

Promotional offer is available on service Mali Hotel TV, in which all customers can get discounted monthly fee for the service.

For new Hotel TV business, customers promo offer was available, in which they could sign new 24 months contract for Hotel TV and get installation fee for HRK 99.
For existing IPTV customers promo offer was available, in which customers can get one of the packages (Sports plus package, Plus or Kids package) during first 3 months for free.

All new customers on MAXtv To Go service can get 2 months for HRK 1 in promotional offer, only on Basic package.
IP Fixed line customer base increased by 5.8% and VPN connection points increased by 5.3% in comparison to the previous year.

The number of data lines is higher by 1.0% compared to 2012. Traditional data lines are decreasing since T-HT is constantly promoting migration to the IP based products. Consequently, Metro Ethernet service is growing.

tportal

Reaching around 40% of Croatian Internet users, tportal ranks among top 5 Croatian news portals, with around 1 million unique visitors per month according to Gemius, an independent Internet traffic research agency.
In Q1 2013 tportal has launched a redesigned article layout optimized for desktop computers. The new layout offers more content on a single page, and first analyses showed that it will further improve the click-through rate. tportal has provided significant promotional support to various activities of the company, such as the launch of Deezer music streaming service, and the launch party for the new Depeche Mode album and tour sponsored by Deutsche Telekom. tportal has also supported the campaign of science popularization created by the Ruđer Bošković Institute, through live streaming of public events connected to the campaign.

In Q2 2013 tportal has launched a special subsection covering the local elections in Croatia, with dynamic features such as the interactive map of the country showing relevant news for the area of readers’ interest. Extensive coverage has been given to the preparations of Croatia’s accession to the EU, as well as the finish of international football competitions such as the Champions League and Europa League.

In Q3 2013 tportal continued with redesign and further development of content presentation segments, particularly the sports section. MAXtv Prva Liga and UEFA sections now offer LIVE goals and highlights of the most attractive football events. Furthermore, with the assistance of MAXtv promotional section, multimedia and editorial team have developed a new landing page for Instrukcije.tv, a new project offering elementary school pupils and high school students the opportunity to catch up with their curriculum through video lessons.

In Q4 2013 tportal has started the process of redesigning, in order to make the layout more contemporary and user-friendly. In the forthcoming year, the portal is to be divided into several sections and the first one was launched on the domain Vijest.hr.

tportal also launched its mobile application, available for iPhone and Android users. Meanwhile, tportal’s Facebook page has reached over 325,000 followers, whereas almost 20,000 users follow tportal updates via Twitter.

ICT

More than 1,550 companies and about 12,400 end users are using T-HT Cloud services. Following continuous engagement and expansion within Cloud portfolio in Q4 2013, new services were launched, e.g. Cloud Data Centre, and Mobile device management. Virtual Server has been upgraded with new packages and new functionalities.

More than 7,100 units of Fiscal cash registers have been sold; more than 2,000 users are using T-HT Fleet management and more than 3,100 Cloud Exchange services.

ICT Marketplace enhanced its offering by new products introduced in Q4 and now provides services as following: Cloud Call Center, Cloud Legal regulation, Virtual server, Virtual desktop, Cloud Exchange mail and Sharepoint, Teambox, Opinator, On line meeting, Spontania video meeting, Spontania Classroom, SugarCRM, and free applications (FileZilla, AbiWord, WinRar, Opera).

Combis and HT successfully delivered high valued customized ICT solutions e.g. Data storage for customer mStart and solution ERP-UPD for customer Hrvatska pošta.
Combis standalone contributed by closing few material projects in the hardware sales, maintenance, printing solution, pneumatic tube system, infrastructure cabling and banking business. As well, in the application

development segment, IP communication and professional services continued with the creation of new solutions and upgrading of existing ones in different verticals (financial/insurance, telco, government/public companies...).

Wholesale

At the end of December 2013 there were 173 thousand active ULL lines and 41 thousand wholesale DSL and naked DSL lines (BSA). ULL market is still growing, but growth is slowing down, similarly like in BSA. When comparing 2013 to 2012, number of ULL and BSA net adds decreased by 3 thousands and 4 thousand respectively. Slower growth of ULL and BSA lines results from lower conversion from HT retail - in the past, cca 50% of retail churn was converted to wholesale services, while in 2013 conversion rate is lower than 20% due to higher number of total disconnections. At the same time, number of WLR lines increased to 118 thousands compared to 104 thousands at the end of 2012 due to the higher number of requests for new WLR lines.

As a consequence of WLR offer, the number of "pure" CPS customers was reduced to the level of 23 thousand at the end of period. New CPS activations are primarily connected with WLR activations and contribute to WLR gross adds (they do not count towards CPS gross adds).
At the end of December 2013 there were recorded 722 thousand ported numbers from HT's fixed network to other fixed networks compared to 646 thousand at the end of last year (connected with growth of ULL and NBSA). Despite of growth in number of WLR and CPS customers due to the lower ARPU value of new CPS customers, volume of originated minutes in 2013 declined by 31.9% compared to the same period last year. At the same time, the number of terminated minutes from other fixed into T-HT network is 9.2% lower than in the same period last year.

Visitor roaming services generated 45.2% of all revenue coming from international operators in 2013. Successful touristic summer season and application of EU regulated prices in retail and wholesale contributed with significant growth of usage of roaming services by foreign visitors in HT mobile network and by HT retail users abroad. Comparing to the 2012, visitors generated 30.4% more voice minutes, 14.1% SMS and as high as 582.8% more data traffic. At the same time, HT's mobile customers generated 12.5% more roaming voice traffic in foreign countries, 1.9% more SMS and also 95.3% more data traffic compared to 2012.

Termination and transit of international voice traffic generated 42.7% of revenues in the international market and rest is related to data and IP services. Total international voice traffic terminated into Croatian mobile networks increased in 2013 by 9.2% compared to the last year, mainly due to the growth of incoming traffic towards foreign roamers in Croatia. On the cost side, international outbound voice traffic from HT network increased by 7.4% in 2013 compared to the last year (mainly driven by visitor traffic).

NETWORK AND INFORMATION TECHNOLOGIES

Network and Service Platforms

Network and service platforms form HT's core infrastructure and as such are subject to continuous upgrading and improvements. Consolidation of HT's operations has led to the convergence of the fixed and mobile networks on joint service platforms, thereby improving the availability of services and more cost effectiveness of our operations.

In 2013, HT continued to focus on further development of the network infrastructure, increasing broadband access capacity and availability, enabling IP transformation of network and technology basis of the Company.

Fixed access network is transformed through its focused and selective modernization and construction.

In the mobile network, HT has continued its Mobile BroadBand (MBB) project. The project aims to improve data services coverage through both existing and newly deployed technologies such as UMTS900 and LTE800.

Network infrastructure

Electronic Communications Infrastructure (ECI) Documentation

During 2013, geodetic surveying and cadastral elaborates documentation had been prepared for the migration into the DDS (Documentation & Design System).

Fiber optical infrastructure

HT is undertaking activities related to FTTC concept and FTTN concept options that will result in a shorter local loop and increase the availability and quality of broadband services.

Energy and cooling infrastructure

New Data Center Zagreb on location Selska 122 is put in commercial operation.

Fixed access network

Access Nodes

HT continues to roll out MSAN (Multi Service Access Node) active access nodes to expand its customer base for broadband and narrowband-services based on VDSL2, ADSL2+ and IP POTS technology. Optimization of access network and migration of customers to VDSL technology will enable replacement of obsolete technology nodes.

PSTN migration

The first phase migration of customers to VoIP - HALO service through broadband access ports and MSAN POTS ports has been completed.

At the end of 2013, 481,115 customers (or 38.5%) had been migrated, 11 local exchanges were shut down as well as 432 remote nodes.

Mobile access network

Evolution and modernization of 2G radio access network

In 2013, the process of exchanging the existing base transceiver stations with new technology continued, and by the end of 2013, 77% of total 2G sites were modernized.

3G radio access network enhancement

HT has continued to optimize the parameters of the radio access network and expand capacity. At the end of 2013, the 3G signal covered 77% of the population with available download data speeds of up to 42 Mbps.

LTE radio access network

In 2013, HT continued to develop the first commercial LTE (Long Term Evolution) network in Croatia on the 1800 MHz and 800 MHz. At the end of 2013, LTE covered more than 23% of the population with available download data speeds of up to 75 Mbps.

Transport network layer

Migration to IP

Transmission migration to IP technology for 3G base stations continued.

DWDM network reconstruction

Metro DWDM (Dense Wavelength Division Multiplex) rings were built and provisioned and the most frequent city sites in traffic terms have been connected by high availability and capacity systems to provide a transport basis for Ethernet the aggregation network to be migrated to IP/MPLS.

Core network layer

Fixed core network optimization

Within the network optimization project, three transit exchanges were switched off from the network - TC5 Zagreb, TC2 Split and TC1 Rijeka.

IP/MPLS modernization of HT Metro Ethernet Network

In 2013 started MPLS migration project on a new metro IP/MPLS technology and network architecture. It should enable flexible introduction of new IP services and capacities and significant increase of Broadband services work quality.

Mobile core network modernization

Migration of the existing packet core (2G, 3G) to the new unique ePC network (evolved Packet Core) has been accomplished. The process of simplification of the network architecture for storing user data also continued, with the migration of user data from the CUR (Common User Repository) database, to the central database CNTDB (Common Network Technology Database).

TeraStream project

After a successful pilot in 2012 that implemented TeraStream IP architecture into practice, we continued with the implementation, and improvements in new innovative solutions like 100 Gigabite coherent link interoperability, introduction of IPv6 as the sole bearer of legacy IPv4 protocol and the development of OSS and BSS solutions able to support network function virtualization.

Service network layer

ISP platform

The functionality of new innovative services has been implemented and enabled: Fon, Deezer, Post paid service within Bonbon brand and Parental Control service.

Portal services

HT launched a new residential self-assistance and web shop 2.0 portal (moj.hrvatskitelekom.hr). In addition, a new My T-Business portal with bill-check functionality and a new Bonbon portal were introduced.

New service platform for advanced voice services for business customers (BAS)

A new service platform BAS-Business Application Server for advanced voices services for Business customers was implemented.

Regulatory obligations on service platforms

EU Reg 2 obligations (Bill shock) and M2F/F2M Destination Recognition have been implemented on all service platforms.

SMSC/OMG

HT upgraded the SMSC (Short Message Service Centre) and OMG (Open Messaging Gateway) Disaster Recovery to increase platform stability.

Media Box service for Montenegro Telecom

Media Box, a fully hosted and managed service for storing, browsing and sharing personal multimedia files, was developed for Montenegro Telecom.

Payway

Integration with the EBPP (Electronic bill present & Payment) platform and connection with Erste, ZABA and HPB.

MPAS (Micro payment application server)

The new MPAS platform for SMS micropayment services was implemented.

Service and Network Operations

Technical services

The Corporate Transformation Program launched a project “Optimize Provisioning and Fault Repair process” whose main objectives are: to significantly improve the quality and efficiency of the customer service delivery. Significant process has been implemented in work with Wholesale services and customers.

Information Technology

The IT division’s activities and accomplishments are aimed to technology realization of ‘digital company’ business model and ‘on-line’ business model transformation, convergence of the business portfolio and consolidation of information systems and business support.
In the area of adoption and exploitation of new technologies, the further development and usage of cloud computing concept and virtualized IT infrastructure emphasizes, as well as development and introduction of new ICT services for domestic and international market.

Data and IT Security

To achieve an acceptable level of security HT implemented a PSA (Privacy & Security Assessment) process. Consequently HT has fulfilled the requirements and received a certificate of compliance with the Level 2 PCI DSS (Payment Card Industry Data Security Standard) standard system for processing credit card payments. Cooperation with the National CERT has been extended and the reporting process to HAKOM related to security incidents is being conducted under new regulations.
The new ISO/IEC 27001 certificate for Information Security Management System (ISMS) in HT relating to the provision of services to customers was also received.

TRANSFORMATION

Transformation

T-HT Transformation Program is improving the Company through revenue growth and cost optimization and by making a foundation for future successful business. The vision of T-HT as the Online Company, which drives the online society and digital economy in Croatia and in the region, is driven through the Transformation Program 2013 – 2015. In 2013 the Transformation is focused in six areas: e-Transformation, Revenue Structure & Growth, Customer Experience, Real Estate and Procurement, Network / IT Optimization & Modernization and Agile & Innovative Organization.

e-Business

Main focus in e-Business area through 2013 was e2e online buying process enhancement and strategic user experience project.

e-Business was established as a business unit/sector in Q4 2012. Main goal of e-Business is increase in e-Sales and e-Care transactions in period 2013 – 2018. In order to achieve these goals, four main pillars were established: Responsive web design, end2end sales process, MyT development and automated online payment. All the projects in pillars are defined in Use cases roadmap and will help further development of e-Business in 2014.

Positive development of eBill mobile throughout the year, with 3,600 net add on average per months, increased to 6,000 positive net adds in December. eSales transactions in mobile increased by 207.5%, driven by increase in gross adds by 307.4%, followed with higher customers migrations by 195.3% and increase in contract prolongations by 186.0%. eSales transactions related to fixed service recorded year over year growth of 196.7%.
In March 2013 Hrvatski Telekom became most devoted brand due to constant presence on Facebook. In terms of Facebook fans, Hrvatski Telekom jumped from position number 5 to position number 2, achieving 181.6% growth in 2013.

e-Company

Main focus in e-Company is transforming internal processes, by first listening outside in, then building new capabilities inside out.
Established as a sector in Q4 2012, ambitious plan was set for 2013 and was delivered as planned: Product Development Process Digitalization, e-Board, Cross Chanel unified 360° customer view & communication, One Sales Frontend (OSF), Cross Collaboration–TSN. Business Social Network, Big Data Advanced Analytics and further e2e process digitalization are on-going and in focus 2014 together with achieved goals and future orientation. HT was positioning as the eCompany DT EU Competence Centre in 2013.

CORPORATE RESPONSIBILITY

Key areas of T-HT Group's CR strategy

Responsibility to society

Responsibility to employees

Responsibility to customers

Responsibility to suppliers

Responsibility to evironment

Corporate responsibility in subsidiaries

CORPORATE RESPONSIBILITY

T-Hrvatski Telekom (Croatian Telecom), Croatia's largest telecommunications company, seeks to facilitate and improve communication, making it easier and more effective. The success of T-HT lies not only in innovation, introduced to the market through new technologies and services. The Company's success also includes an appreciation of the role it plays within the community in which it operates that stems from the understanding that responsible business represents a substantial long-term strategic advantage.

Sustainability of business operations, through a responsible approach to the society in which we operate, is an integral part of T-HT. The Company uses its own advantages and strengths to enrich the everyday life and knowledge of the community, in order to convey corporate values to all stakeholders with whom it interacts on a daily basis.

The T-HT Group believes that a company's reputation is dependent on far more than just the quality, price or particular features of its products and services. Of equal importance are attitudes towards employees, customers, suppliers and investors, towards the environment and the society in which it operates.

In this comprehensive Corporate Social Responsibility report, T-HT Group aims to outline and articulate its strong sense of responsibility towards its stakeholders.

Key CR strategy areas

Connected life and work

Our business is predicated on enabling the optimal work/life balance. Our goal is to develop innovative telecommunications solutions and services that will improve everyday life through first-class communications and connectivity.

Connect the unconnnected

We aim to provide widespread access to telecommunications services to foster the growth of the knowledge society. Our ambition is to ensure that advanced technologies are available on-demand to all.

Low carbon society

Environmental protection is a key goal of our social responsibility initiatives, and specifically involves responsible use of resources and a lowering of greenhouse gas emissions.

Principles of socially responsible conduct

The system of values that the Group promotes is defined by the Guiding Principles of the Company. The Principles provide guidelines that we need to follow in our daily work, that promote ethical behaviour, mutual respect, team work, accomplishment of the best results possible as efficiently as possible, open expression of opinions, assumption of responsibility and the creation of an environment that encourages, recognizes and appreciates exceptional results.

By promoting the common standards of behaviour towards our customers and our co-workers, we create an atmosphere that is a pleasure to work in and contribute to the overall business success of the Company.

Dialog with stakeholders

The T-HT Group firmly believes in the importance of open and transparent communication with all its stakeholders. The Group continued to engage with key audiences using the medium of social networks in 2013. T-HT communicates now with customers on a range of networks including Facebook, Twitter, YouTube, Flickr and LinkedIn on a daily basis, to provide support in addressing problems and receive feedback on our products and services. In 2013, T-HT also launched pages on the Google+ and Vine networks.

In 2013, the T-Blog - the first corporate blog in Croatia - was launched. The T-Blog is meant to serve as a platform for discussing telecommunication, technological and similar topics related to the services offered by the Company, and for discussion of broader telecom and ICT industry trends.

Transparent communication with investors is of particular importance in order to articulate the Group's current status and potential, to enable them to reach a fair valuation. In 2013, T-HT was, for the third time, awarded the best investor relations national company by Poslovni dnevnik magazine. In addition, T-HT was awarded the first prize by the Zagreb Stock Exchange in the category of the "Share with Highest Turnover".

Business compliance

Compliance with the laws and other regulations, abiding by the internal rules and the Code of Conduct are the basis of responsible corporate management, i.e. the necessary prerequisite for business success and an obligatory aspect of every business process.

T-HT actively promotes the principles of ethical business through a framework of compliance in order to prevent possible negative consequences and ensure compliance of business processes with the relevant regulations. The Business Compliance Department was formed back in 2008 to promote ethical business dealing across the Group and implement an Anti-Corruption Policy.

In 2013, the T-HT Compliance Management System was successfully certified by an independent auditor based on IDW Standard 980 in which multiple anti-corruption related controls were assessed. Certification included control environment and relevant processes in Sales, Procurement, HR and Internal Audit. All inspected controls in relevant areas successfully passed certification requirements proving that the environment of T-HT provides a high standard of anti-corruption initiatives.

Code of Conduct

T-HT's Code of Conduct sets clear standards of business conduct and is based on the highest ethical principles. The Code is based on the company's Guiding Principles and desirable behaviors – in particular: "Respect and integrity guide our behavior". The bulk of the document deals with the relationship with customers, partners and suppliers, and special attention is paid to managing information and conflicts of interest. The Code provides clear instructions to employees on how to behave in case of doubt or perceived breaches of principles and values.

Certificates

T-HT reported on CSR for the first time applying the guidelines of the international organization Global Reporting Initiative (GRI) in 2012 to the business period of 2011. The Report was first audited by PricewaterhouseCoopers and then the self-assessed reporting level B was confirmed by the global issuer of the guidelines itself. Thus our acclaimed GRI level is, to our knowledge, the first sustainability report in Croatia to be confirmed by the GRI itself.

In 2007, T-HT joined the UN Global Compact initiative, which supports the fundamental social values within 10 principles of responsible business. Since 2009 the Company has regularly reported on the progress of implementation of these principles, and did so again in 2013.

Oekom Research added T-HT to its Prime category, with respect to its standards of corporate responsibility and sustainable development policies, in 2008. The rating was confirmed again in 2013.

In 2012, T-HT was included, for the fourth consecutive year, in the Vienna Stock Exchange's CEERIUS Sustainability Index for 2013. This rates shares in leading CEE region companies with respect to social and environmental, as well as economic, performance.

Donations and sponsorships

A common characteristic of all T-HT's donation activities is the orientation towards the projects of lasting value that incorporate technology, education, charity and ecology. Most projects are continuous, thereby increasing their efficacy and leading to better and stronger relationships between the company and beneficiaries.

Solar Sunflowers – an internationally recognized project

Ten elementary schools from ten towns were chosen to receive a T-HT donation of a small solar power plant that turns toward the sun for more efficiency. An information display was installed in each school to teach pupils about the quantity of produced energy and CO2 emission calculation. The energy produced reduces school energy costs. Highly specialized professionals were commissioned to produce education for teachers about sustainable energy. Educational material was freely downloadable from a dedicated web site. Innovative billboard displays, partially photo chromatic, with images that alternated according to time of day, were installed in four towns.

The project received the bronze Magenta Award prize, the biennial award of the Deutsche Telekom Group for the best communication projects by the Group.

UNICEF

Multi annual partnership between T-HT and UNICEF resulted in new services for very young children and their parents. A new parental help line – the "Little Phone" - has been established at the request of parents and is now being extensively used by parents, grandparents and careers. Also, across eight years of partnership T-HT has supported the development of early childhood intervention models of care for young children with disabilities and neurodevelopmental risks.

Furthermore, a successful exhibition of Croatian photographs under the name "The way Croatian children live" was held in 2013.

Alongside its corporate donation, T-HT has also provided a system whereby customers can also contribute to this valuable UNICEF project.

"Zajedno smo jači"

Hrvatski Telekom continued with the successful humanitarian competition "Together we are stronger", through which for the eighth consecutive year, funds were donated for projects of special importance to the community.
HRK 540,000 were donated to organizations and institutions to undertake initiatives of importance for the local community. The competition had three categories, and each was assigned a total amount of HRK 180,000.

Categories of the competition were "Connected life and work", for projects that apply modern technologies in life and work, and "Connect the unconnected", for projects that improve quality of life and enable inclusion and equal opportunities for everybody, and "Low carbon society", for eco projects that contribute to environmental protection.

060 numbers - charity action support

In 2013, T-HT continued to support other charity campaigns by providing telephone lines to allow the public to make contributions, an activity it has engaged in since 2001. Campaigns and organizations assisted in this way in 2013 included, among others, the Ana Rukavina Foundation, Rotary club Zagreb Kaptol, and RTL Helps Children. T-HT donated all proceeds from these initiatives to the causes concerned, raising a total of HRK 2.1 million for charity.

Knowledge society

T-HT conference "Znanjem rastemo"

Over the years the T-HT conference "Znanjem rastemo" has developed into a prominent event featuring the world's leading experts, visionaries and thinkers in an exchange of knowledge, insights and the most advanced ideas of our time with the guests. Every year the conference is attended by numerous members of the political and academic communities, employees and science experts.
In October 2013, T-HT held its sixth "Znanjem rastemo" conference in Zagreb. The keynote speaker was the globally renowned inspirational speaker Alain de Botton, who talked about the crucial role that education plays in the rearing of future generations, in the achievement of a wise and good life, in effective motivation of employees, in self-affirmation through work, and in making the world a better place through self actualisation.

Conference support

T-HT continuously plays a key role in development of knowledge society supporting various gatherings of scientific experts such as WinDays 2013, the MIPRO Conference, the Combis Conference, the Cisco Conference, IDC Conference, Telecom Arena, HospiTaly Days related to m-health and other events related to the telecommunications sector and its communities.

The Group has also provided infrastructure, technical support and equipment to a number of local and international forums and conferences.

Scholarships

The Group continued with the T-HT Scholarship project. Six undergraduates, for the second year, in 2012 continued to receive monthly scholarships. They were selected from the top candidates from the Faculty of Electrical Engineering and Computing in Zagreb who had achieved excellent results at university, and also displayed a broad range of interests and participation in extracurricular activities.

Another scholarship scheme the Company supports is the “Korak u život” (Step into Life), organized by the Rotary Club Zagreb Kaptol. In 2013, for the third year T-HT awarded scholarships to four students who lack adequate parental support to fund further educational opportunities.

Culture

T-HTnagrada@msu.hr

T-HT has been the main partner of the Museum of Contemporary Art (MSU) since 2007. This partnership continued in 2013 with the annual award for the best Croatian contemporary work of art which is a recognizable and valuable art project that significantly contributes not only to the Museum’s collection but also to the development of Croatian contemporary art. The acceptance and success of the project is best evidenced by great response of artists of all generations and creative approaches. T-HT also provides telecommunications services to the museum alongside financial support.

The sixth T-HTnagrada@msu.hr, one the most prestigious annual awards in the field of contemporary art in Croatia, was held in 2013. There were 200 works of art submitted and the international expert jury selected 38 for the exhibition in the building of the Museum of Contemporary Art. During selection of the works for the exhibition, excellence was the main criterion for the jury because of the diversity of the works submitted by artists of all generations. This was also applied in selecting the works that received awards.

Theaters

T-HT continued its tradition of sponsoring Croatian national theaters in Osijek, Varaždin and the Gavella City Drama Theater in Zagreb. Also, the “Špancirfest” street festival and Varaždin Baroque Evenings were supported through sponsorship of the City of Varaždin.

Film festivals

In 2013 T-HT supported seven film festivals: ZagrebDox, Pula Film Festival, Starigrad Paklenica Film Festival, Vukovar Film Festival, Film Festival Avvantura Zadar, MAXtv filmomanija and Zagreb Film Festival.

In 2013, T-HT created a new platform called MAXtv Filmofeel, ‘’Festivals’ best friend’’, which focused on sponsored film festivals. As part of the competition, entertainment content was organized for visitors to film festivals and for film lovers who viewed film festival events online. Through the MAXtv Filmofeel platform, T-HT undertook, in cooperation with the Zadar festival, a unique project in this part of Europe, the Online Film Festival ‘’Sunday Avvantura on tportal ‘’. From Sunday 22 December 2013, T-HT provided access to all film lovers to “The Sunday adventure’’, the online edition of Zadar Film Festival, on tportal.

This revolutionary VOD (Video on Demand) platform on tportal opens a window to a broad audience that can now enjoy every Sunday new titles from directors coming onto the European film scene. Through this partnership with Avvantura Film Festival Zadar and Eye On Films (Wide Management), T-HT connects international projects, festivals and distributors, and provides a virtual film festival on the Internet and offers a showcase for new films and directors. In 2014, the service will be extended to provide film fans the opportunity to enjoy two films every Sunday from 18:00 to 24:00.

The roman@tportal.hr prize

For the fifth consecutive year tportal ran a competition for the roman@tportal.hr literary prize worth HRK 100,000. Tahir Mujičić won the prize for his novel „Budi Hamlet, pane Hamlete“.

Electronic Beats Festival

T-HT supported the Electronic Beats Festival Zagreb 2013, which attracted more than 2,000 visitors who enjoyed performances by some of the hottest performers on the electronic music scene, such as Fritz Kalkbrenner – live, Efterklang, MSMR, Dena and DJ Itch.

Tvitomanija

In 2013, T-HT was the sponsor of communication technologies at the largest regional conference on social networks, Tvitomanija, that took place in Novi Vinodolski.

Sport

Croatian Olympic Committee

The T-HT Group continued its long-standing cooperation with the Croatian Olympic Committee, as its main sponsor, thus linking T-HT’s values with the Olympic Games principles of fair competition, persistence and the pursuit of excellence.

Paralympic Foundation

T-HT is one of the first supporting members of the Foundation. Croatian Paralympic Committee launched the Foundation to help top athletes with disabilities improve their skills and provide the same conditions to all athletes.

MAXtv Premier League

The cooperation between MAXtv and the Croatian Premier Football League (prva hrvatska nogometna liga) - MAXtv Prva liga - continued in 2013 bringing top flight production standards and broadcasting Croatian football matches on new interactive platforms. T-HT is also a sponsor of the Croatian Premier Football League.

Sportske igre mladih (Youth Sports Games)

T-HT is a long-standing sponsor of the Youth Sports Games, the largest amateur sports event in Croatia. In 2013, around 84,790 young competitors from 7 to 18 years of age came together to compete in 10 sports and more than 20 cities. The event is underpinned by a strong anti-drugs, anti-alcohol and anti-violence message, articulated in the slogan: ''We live life without drugs because drugs take lives.'' In 2013, the YSG were also held in neighboring Bosnia and Herzegovina, and involved more than 25,000 children.

Responsibility towards employees

Employees' development

As a Company that is strongly focused on the development of our employees' potential, in 2013 we continued to analyse the training needs of our strategic workforce and undertook development activities that address these needs. This approach has enabled us to identify the competencies we require for the future and to equip our employees with suitable skills.

One notable feature of 2013 was the focus on internal knowledge sharing as a key factor in employee development activities. A range of creative programs were developed such as:

"HT Academy" – an internal professional education program, which aims to increase knowledge in the field of marketing/ technical area / sales, delivered through cooperation between HT's experts and external established lecturers. It consists of educational modules, which cover key issues related to the operations and strategy of our company (Sales/Marketing/Technical Academy).

"T-Trainers" – a fully internal knowledge sharing program with expert employees from different fields of expertise as volunteer trainers (Finance, Project Management, Marketing etc.). They are involved in various initiatives: HT Academies, the "Training according to your choice" initiative etc.

"Training according to your choice" – a program that consists of various workshops offered to employees on a quarterly basis. Employees are provided an opportunity to apply for education in topics of their own choice, rather than those directed by the management, as is the usual practice. Themes covered include: Finance for non-financial staff, Project management, Team workshops, Strategic marketing strategic program etc.

"Quarterly team workshop" - consists of a variety of workshops offered to managers on a quarterly basis for their teams to access. This initiative is aimed at tackling three areas of development: change management, relationship management and fostering innovation / creativity. All three themes are supported by the most contemporary workshop methodologies, which require certified facilitators (e.g. 4 rooms of change). Internal certified facilitators also manage these events.

The Group has also continued its successful internal seminar series, including Knowledge on Thursday and Closer to the Customer (an internal program of certification for direct contact with customers).

In 2013, great emphasis was placed on **e-learning** as a legitimate learning method. T-HT has been in possession of a proprietary Learning Management System (LMS) since 2006. In 2013, the Group had 55 active themes open to all employees and 75% of employees accessed to LMS during the year. We constantly improve and develop e-learning opportunities, with a focus on enabling collaborative e-learning functionalities (virtual classrooms, chat etc.).

Furthermore, the Group's three years' experience of using program "RasT", a systematic career development program for all employees, has shown this to be an excellent route to identifying **individual potential and development needs**. As a result, we have been able to offer potential for further development to employees who demonstrate high standards of performance. These employees have access to the opportunity to learn through expanding their experience, participating in knowledge sharing, gaining experience in an international training context, continuing further professional education and participating in post graduate studies or MBA programs.

Further proof of our strong focus on employee development is the fact that in 2013, 90% of all employees participated in educational activities.

Management career development – continuous development activities

In 2013, management development programs were designed as an extension to the 2012 group coaching program, using inspirational content as a basis for reflective learning and planning. This cross functional collaboration was supported through a framework that combined a large group event with discussions in smaller groups. Continuous support in the implementation of action plans was facilitated through the introduction of a buddy system – pairing managers who agreed to provide mutual support as they face developmental challenges.

Through individual coaching, we have also continued to address the specific development needs of managers in different business units. As in 2012, our managers participated in the ongoing "Closer to customer" program, one of the key programs aimed at developing a customer-centric culture across the Company.

Performance management and recognition

Achieving optimal results is one of the most valued competencies in our Company. As a result, all employees have defined targets within the performance management process. As we operate in a business environment that is constantly evolving, our performance management schemes need to be aligned with our business needs at all times. Consequently, in 2013 we implemented a new incentivisation system for our sales staff and redesigned the performance management system for the entire company. We have also rebranded the recognition tool "Thank you! for the extra mile" a quarterly program that recognizes and rewards employees for demonstrating a passion for their work through result orientation, employee excellence, innovative ideas, collaboration and customer orientation. The announcement of employees that are recognized ensures full transparency and emphasizes the culture of high performance across the Company.

Human Resources Strategic Planning

After implementing a new Human Resources strategic planning methodology in 2012, in 2013 we have continued with the implementation of this methodology in all business areas.

The methodology, based on the Company's strategy and transformation program, enables us to define the skills, competencies and knowledge required for the future in each area of the company, as well as to determine activities that will develop these skills. The results can then inform our planning of education and development activities. In 2013, we developed specific education programs such as a marketing academy, telecommunications for non-technicians, finance for non-financials, and other courses designed to foster an understanding of other business models etc.

Responsible restructuring

The Company demonstrated high levels of sensitivity and responsibility towards all staff leaving the company.

In addition to severance payments, several times exceeding the amounts prescribed by law, during the notice period and for at least six months after, employees can access content and services from the Support Plus Program. Within the scope of this program, which has been successfully conducted since 2006, a range of useful tools is offered, as well as the assistance of qualified experts who offer counseling in returning to the labor market.

Employee benefits

Our company provides numerous benefits to its employees, both financial and non-financial. The annual vacation bonus, Christmas bonus, gift for children, vouchers for Easter and jubilee rewards are just a selection of the financial benefits outlined in the Collective Agreement.

The employees' health has always been a priority for the Company. Regular annual medical check ups for all employees and vaccinations for employees who may come in contact with ticks are just some of the activities the Company conducts in respect of employee health care.

Employees can choose from a range of recreation and sport activities financed by the Company.
Once again, this year T-HT continued its long-standing tradition of organizing employees' sports meeting – known as HT days. Employees competed in various sports and through its funding of this event, HT confirmed its dedication to promoting and encouraging a healthy lifestyle.

Guiding Principles

Our five corporate values form the basis of our work and conduct within the company and the wider environment. This year, the Company particularly focused on customer satisfaction: providing excellent and reliable service with simplicity.

The Employer Partner Certificate

The excellence demonstrated by the Human Resources Management initiatives in Hrvatski Telekom was recognized by an Employer Partner Certificate. This is granted to companies that consider employees to be the biggest asset and are therefore committed to high standards and best practice in this regard.

Cooperation with the academic community

As the leading telecom provider, proud of implementing cutting edge technology, HT has close links with the academic community, particularly with the Faculty of Electrical Engineering and Computing (FER). Committed to responsible business, our Company promotes the transfer of knowledge, and therefore focuses this long-standing cooperation on mutual project work, scientific research and development activities.

Our experts from different parts of the Company often speak as guest university lecturers and share their expertise with the students. Positive feedback from those young people is their biggest reward.

T-HT also encourages the enthusiastic and professional work of student organizations, and actively supports their activities and participates in their events or case study competitions.

We endeavour to accommodate students on our practice programs, also providing mentors who can advise, guide and assist them as they enter the business world. In addition, our recruitment experts have held workshops that instruct students how to prepare for job interviews. Through our work with the academic community, we inject enthusiasm, creativity and passion into our own day to day business lives.

In 2013, T-HT equipped the hall of the Academy of Dramatic Arts and awarded the best student team at the competition Case Study Competition organized by the Association eSTUDENT, under the auspices of the President of the Republic of Croatia.

Employee's opinions count

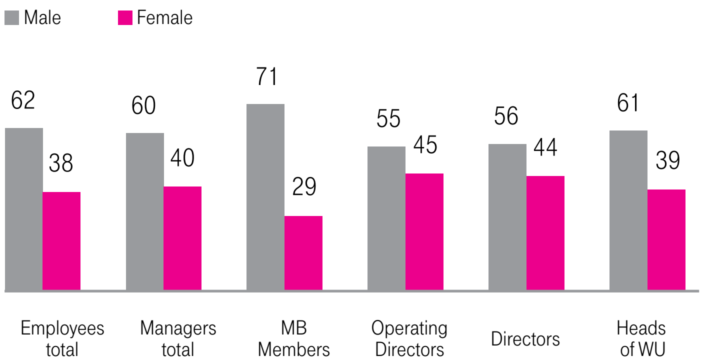
The opinions of our employees are important to us, and we regularly conduct surveys to enable us to feel the pulse of the company. Job satisfaction, commitment, recognition, professional development, understanding and embracing change are just some of the areas where we seek the opinion of our employees. Our employees show us what is good, and what needs to be improved. With their views and feedback as a basis, we have developed plans for improvement.

Employee satisfaction forms a pillar of our strategic Company targets and influences our strategic decision making.

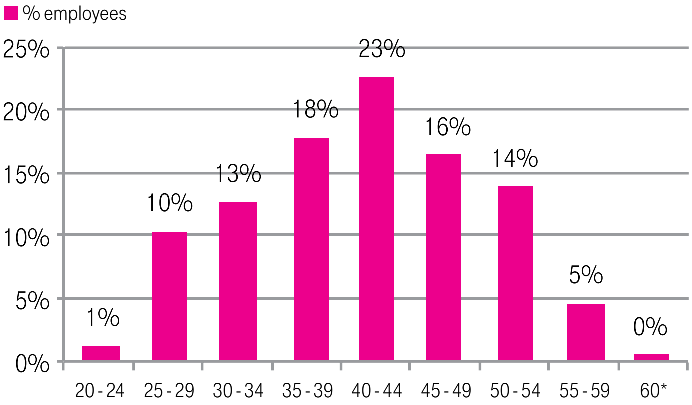
Statistical data

We are proud of our tradition of respecting diversity and promoting equal opportunities, and this approach is reflected in the proportion of female employees in our management team, which exceeds the proportion of females in terms of overall employees and by far exceeds the Croatian average - and which has further increased in comparison to 2012.

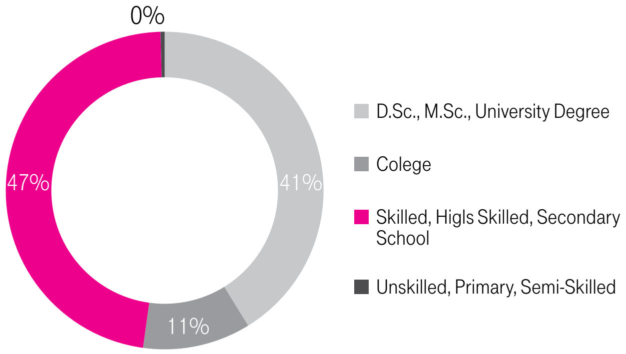
Gender structure in HT 2013 (in %)



Age structure



Education structure



Responsibility towards customers

Customer care

Our customers are offered support on a 24/7 basis by phone, e-mail, postal mail, fax and via social media. Social media represents one of the most effective and immediate channels and the customer response has been extremely positive with over 100,000 "likes" on HT's Facebook profile and over 6,000 followers on Twitter. The company website *hrvatskitelekom.hr* also offers an online chat facility. In addition to providing information and help, call centre agents also market products and services tailored to the customers' individual needs.

Monitoring customer satisfaction

T-HT continuously monitors customer satisfaction and loyalty, using the TRI*M methodology and NG ICCA customers comments for the Call Centre (and IVR self-service), shops, web, and technicians. The Call Centre and the Shop touch points play a key role in the maintenance of good relationships with our customers. Employees from T-HT offices also spend time at the coal-face, becoming "Christmas helpers" in the stores. This initiative provided T-HT managers an opportunity to speak directly to customers and hear their comments about products.

Responsible approach to customers

T-HT tailors its services to take into account the varying needs of its customers' needs, as shown by our special discounts, shops accessible to disabled people, special packages for customers on low incomes, services for young people and discounts granted to Croatian Homeland War disabled veterans. It also provides parental protection, handset insurance and various billing options including web billing, voice billing and e-billing. Customer Journey Mapping has been introduced this year to enable employees to fully experience all stages of the customer journey for any new product proposition prior to launch.

Advanced technology available to all

T-HT is a proven innovator both within Croatia and the DT group. The IPTV service "MAXtv" launched in 2006 was the first within the organization and is rated by Informa as a world leader. This status was confirmed in 2013 with the launch of a 4-play offer MaxObitelj, which brings customers' fixed voice, broadband and TV service together with a mobile VPN family tariff in a single contract / bill. Croatia is very much a family-orientated country and as such MaxObitelj customers enjoy unlimited talk time within the family. Access to wifi has also been greatly expanded with many customers now enjoying access to over 12 million Fon Wifi locations free of charge. In 2011, T-HT was proud to become the first Croatian company use Aplicentar. As part of T-HT's commitment to the family, this year it established instrukcije.tv, a home-education service.

Innovative new services in 2013

PSTN migration

The PSTN (Public Switched Telephone Network) migration of the fixed network represents a radical change within the telecommunications network of T-HT. The basic platform is to be completely transformed for the purposes of developing new multimedia and customer-oriented services based on IP technology. After 20 - 30 years of use, old digital telephone switchboards will be gradually replaced by new, IP-based technologies, both on the control and access level of the network.

tCloud

Given the increasingly important role that technology plays in environmental protection, T-HT continued with new cloud services in 2013 (Cloud Call Center, Water Consumption Control, etc.) offered to the customers through the ICT Marketplace, a store of business applications and ICT services where users can rent a range of advanced cloud services and PC applications.

TeraStream

TeraStream is an extremely simplified IP network concept that combines network technology, data centers technology, and fiber infrastructure. It allows simpler implementation and integration of advanced services of the future, and it is expected that precisely this type of telecommunication solution will become the industry standard in the future. TeraStream increases the speed of the access network by about 50 times the current capacity, and is fully IPv& protocol based. T-HT was the first in the Deutsche Telekom Group to implement this innovative technology to test this concept and work on improving its functionalities.

Electric vehicles

The aim of the MOBINCITY project was to develop technological innovations that will contribute to large-scale use of electric vehicles in the future. Within the project, communication protocols were defined for electric vehicles to communicate with each other and other traffic. The project facilitates optimal journey planning, based on data collected in real time. This solves part of the problem that has so far prevented significant use of electric vehicles in traffic. The project leader is the Institute of Technology and Energy from Spain, and T-HT is participating in the areas of the project that relate to communication systems and project management.

T-HT provides electricity

Since December 2013, T-HT started offering electricity to citizens.

Instrukcije.tv

T-HT has introduced instrukcije.tv (tutoring.tv), an advanced service that, through video tutorials on MAXtv, helps students master the mathematics curriculum for elementary and high school. This service gives students the opportunity to practice or improve their understanding of subject matter regardless of their level of achievement, thereby facilitating greater access to knowledge and development.

Cloud Call Center

In 2013, T-HT further expanded its range of services in the cloud for business customers, introducing the Cloud Call center service. This is a unique service in the market that allows customers to establish a high quality and flexible call center at no initial cost, in a fast and easy manner.

In a separate cloud-centred project, T-HT participated in a pilot project croRIS, radiology in Could, in coordination with the Clinical hospital Dubrava and General hospital Dubrovnik, which aimed to connect the two institutions via a service hosted in T-HT cloud.

Responsibility towards the suppliers

T-HT implements a Sustainable Procurement Program for the purchase of products and services within the entire Group. The Group endeavors to obtain optimal value whilst considering factors such as price, quality, availability and functionality, the impact of product and/or service on the environment, social aspects, working conditions and human rights. The Sustainable Procurement Program includes supply chain management with regard to social and ecological risks and the possibility of long-term benefit for the Company, supplier selection under clearly defined minimum standards (including Social Charter or International Labor Organization conventions), and regular checks to ensure compliance.

Responsibility towards the environment

Promoting ecological awareness in T-HT

T-HT strives to encourage a strong understanding of environmental issues amongst its staff. To this end, the majority of employees undertake a basic course about environmental protection. A lecture in the internal educational series “Knowledge on Thursdays” (“Znanje četvrtkom”) on the impact of electromagnetic fields from mobile network base station antennas attracted a great deal of employee interest. Furthermore, 95 new employees attended an initial environmental seminar.

T-HT’s car fleet totals approximately 200 vehicles, which can run on LPG fuel. LPG is considered to be the most environmentally friendly motor fuel and T-HT is constantly, through different internal initiatives and measures, encouraging employees to use it more in its vehicles.

T-HT becoming an e-company

Within the objective to transform its operations through automation, digitalization and simplification of business processes, paper consumption in T-HT was reduced by approximately 15% in 2013, in comparison to 2012.

T-HT disposed of and recycled in total 170 tons of paper waste in 2013, which is approximately 5% more than in 2012. This is the result of both digitalization of the company and preparations for moving the Company’s headquarters to another location.

Ecological disposal of used mobile devices

Since 2005, when organized collection and recycling of used mobile phones started, T-HT has assisted in the disposal of more than 124,000 handsets. Alongside the regular collection of used devices in T-Centers, T-HT organized a buy-back program for old mobile devices from business and residential customers “Replace and Save” (“Zamijeni i uštedi”) in June 2013, under which customers can receive discounts when buying a new device. This new program resulted in total of 1,362 phones collected and recycled in 2013.

Implementation of green technologies

As the only telecommunications company in Croatia certified under the ISO 14001 Environmental Management Standard, T-HT is focused on the implementation of green technologies in telecommunications. The Group is witnessing major technological changes, and the aim is to align these changes with high ecological standards and in this way contribute to the quality of life and business of our customers and wider community.

Energy efficiency

The mobile, fixed and Internet networks present an immense challenge in terms of electric power consumption and energy efficiency. Every new service, subscriber increase and network development leads to greater energy requirements. T-HT’s project to promote energy efficiency at the corporate level launched in 2011 has continued in 2013 with positive results. As a result, the absolute amount of electricity consumption in 2013, in comparison with 2012, did not show the significant increase that might have been expected from the

introduction of new technologies into the network. Key initiatives in this regard include efficient air conditioning and power supply systems, modernization of telecommunications equipment, optimization of the real estate portfolio and refurbishment of property owned by T-HT according to energy efficiency principles, more extensive use of IT resources along with a range of other activities that contribute to more a economical consumption of energy. Furthermore, 14 wind-solar systems produced electricity for T-HT mobile network base stations in 2013.
In 2013 T-HT continued to conduct energy audits and energy certifications of its buildings to assist with improving the energy efficiency of its real estate portfolio. Independent energy audits also resulted in recommendations for future improvements to increase energy efficiency, leading to better working conditions and opportunities for significant energy savings. In total, 30 technology and office buildings were certified in 2013, with an average energy class D, which is satisfactory with respect to the year and type of construction, primarily due to the quality of regular maintenance and materials and equipment installed.

T-HT participated again in 2013 in the largest global initiative against climate change called – the "Earth Hour".

Role of ICT in environmental protection

Given the increasingly important role that technology plays in environmental protection, T-HT continued with new cloud services in 2013 (Cloud Call Center, Water Consumption Control, etc.) offered to the customers through the ICT Marketplace, a store of business applications and ICT services where users can rent a range of advanced cloud services and PC applications.

T-HT's pilot project based on innovative NFC technology continued in 2013, further confirming the Company's status as a technology leader and innovator.

Certification and membership

T-HT has held the certificate for ISO 14001 Environmental Management System since 2010. In September 2013 an independent central external audit of our ISO 14001 EMS, being a part of Integrated Management System of DTAG, was successfully completed, and the certificate was renewed for the subsequent three-year period. That confirmed the integration of environmental protection in all relevant work processes, and ensure that all employees are aware of the importance of environmental protection. At the same time, the first independent external audit under BS OHSAS 18001 took place, resulting in the award to T-HT of a certificate for health and safety in the workplace for next three-year period.
T-HT is also a member of the European Telecommunications Network Operators' Association (ETNO) and a signatory to the Environmental Protection Charter, Sustainable Development Charter and Corporate Responsibility Charter.

T-HT became a member of a newly formed Association of Energetics within the Croatian Employers' Association (CEA) in February 2013. The aim of this association is to facilitate a better and more sustainable economic environment through the inclusion of energy creation in national policy making.

Corporate responsibility within affiliated companies

Combis

Combis continues to underscore its support for the human capital within business. Over recent years, it has endeavored to develop education, health and culture within the business and society. In 2013, Combis supported through donation and sponsorship, a range of projects involving humanitarian action, improvement and development of education, promoting less visible sports activities especially in the domain of amateur sports, encouraging urban culture and through support for Croatian and regional ICT conferences.

Combis is highly aware of those who need help for a possibly better quality of life. In 2013, Combis donated computer equipment to "Leptirići" (Association for Cerebral Palsy from valley Neretva). Combis provided financial support to the Zagreb foundation for the people suffering from cerebral vascular disease. Combis also provided financial support to the NGO "Most" in Split, whose work is based on the value of volunteering, humanity, solidarity and respect for human rights, enabling their work with the needy, the young and citizens of all ages.

Combis also recognized and supported the unique "Down Syndrome Center Pula". The guiding principles of the centre is the protection the rights of children with Down syndrome and the rights of their families and friends.

Combis also provided financial support in 2013 to the SMA.T Association (Association of Parents of Children with spinal muscular atrophy and tracheostomy) whose members are engaged in education and consultation for parents and raising funds for to procure specialist equipment.

Combis has always focused on encouraging and improving education and working with young people. At the beginning of 2013, support was provided to a student competition App Contest Start and the student association eSTUDENT, while in the second half of the year, Combis supported student teams, especially those using technology and knowledge in innovative ways. This way, considerable financial support was provided to the student association HSA-SF (Croatian Student Association of the Faculty of Engineering) Faculty of Mechanical Engineering and Naval Architecture University of Zagreb and their FSB Racing team with the Formula Student project, whose main activity is competition at world level in racing and in the development of racing cars. Their activity, participation and presentation of work were part of 7th Combis Conference at Šibenik.

Combis also targets support for sports that have a lower public profile. Therefore, in 2013, Combis sponsored the women's basketball club in Zagreb (ŽKK), as well as amateur sport, including sponsorship of the 13th International Swimming Marathon "Combis Zagreb Open 2013".

Culture is one of the most important areas of interest for Combis, and in 2013 Combis supported the 14th edition of the music festival "Žedno uho". In the fall, Zagreb hosted the 16th International Comics Festival, and Combis continued providing traditional support for this key event in the urban culture calendar.

In the same manner, Combis is also providing support to ICT conferences both in the region and across Croatia. In 2013, Combis sponsored the Cisco Connect SEE, the Microsoft WinDays conference, IBM Solution Summit, Oracle Days and Serbia Oracle User Group Conference (SrOUG)

located in Serbia, and Combis was also active in Bosnia and Herzegovina with the MS NetWork.
In 2013, the Seventh Combis Conference maintained the high standards that have come to be expected with this event. The keynote topic was "Use ICT = Express Potential = Improve Business" and more than 300 participants gathered for the event this year in Šibenik. This year's participants particularly highlighted the value provided by the case studies that demonstrated the practical importance of ICT technologies. During the conference, 29 lectures were delivered and the event concluded with a round table discussion on **"**Croatian ICT in the EU – Experiences and Expectations**"**, with representatives from leading IT companies, startups and investors in the sector.

Iskon

Iskon has become a strategic partner to ZIP, one of most experienced and established startup incubators in Croatia, to support entrepreneurial ambition and a startup culture in Croatia. Iskon provides mentoring services to startups, through workshops and master classes, and the possibility of financial investment in ICT and telco startup projects.

Iskon also sponsored TEDx Zagreb, a suite of brief, carefully curated talks, demonstrations and performances on a wide range of subjects designed to foster learning and inspiration.

After four years of cooperation, Iskon became a general sponsor of Motovun Film Festival in 2013, continuing and deepening the connection to films made by independent cinematographers and production companies. Iskon 'Videoteka' brought 12 movies from the festival to the IskonTV platform, and the contest 'Five minutes of fame' gave prospective DJs a chance to play in the specially created Žedno Uho Iskon pop up club@Motovun.
Iskon's sponsorship of Ljetno kino Gradec helped provide a showcase for 48 movies from 15 different countries to citizens of Zagreb. All films were shown for free inside Katarina square, and more than 10,000 visitors attended the projections. Iskon also sponsored six Discovery movie premieres, including the latest offerings from directors including Woody Allen and Pedro Almodovar.

Iskon continued to be the official telecommunications partner to various music events and organizations in Croatia, supporting both international and local acts: Seal (Zadar), Dubioza Kolektiv (Zagreb), Nightwish (Zagreb) and Massimo (Pula). Iskon services also helped the Croatian Music Institute to organize the 20th edition of Porin, a significant national discography award.

More than 300 street performers and artist gathered for the 17th edition of "Cest is the best" festival. As a sponsor, Iskon has helped to bring more than 300 hours performance by artists from 15 different countries to the streets and other locations around Zagreb.

Through sponsorship and provision of telecommunication services, Iskon has continued to support various sports organizations and clubs in 2013: HASTK Mladost, Ski club CA, HNS and ATP Zagreb Indoors. ATP Zagreb Indoors was also supported for the fifth consecutive year.

A donation from Iskon has also supported the 'Debra' association to refurbish the living accommodation for persons with chronic autoimmune subepidermal blistering disease (EBA).

FINANCIAL REVIEW 2013

T-HT Group Financial Results
Analysis of Segments Results

FINANCIAL REVIEW 2013

Group Financial Performance

Disclosure

In 2013 the definition of mobile Data customers has been changed. Previously, data customers were consisted of mobile broadband customers with internet tariffs, and handset internet customers with data bundle tariffs/options with recurring payments on a fixed period contract of more than one month and with predefined data volumes. Handset internet customers did not relate to SIM-level, but were the sum of relevant options and tariffs. Based on new definition, mobile data customer additionally includes customers with non-recurring data usage and M2M customers, while handset internet customers with recurring data usage are counted on SIM level.

Operating expenses per segment for 2012 changed in comparison to originally reported in 2012 due to organisational changes in 2013.

In Q4 2013 treatment of revenue from default interests and dunning letters has been changed and presented as a part of Revenue instead of Other operating income. In order to reconcile the presentation of comparable period data with data presented in 2013, the following positions in the financial statements for the year ended 31 December 2012 were also reclassified as follows: Other operating income (HRK -99 million), Revenue (HRK +99 million).

Revenue

Total consolidated revenue decreased by 6.8% to HRK 7,042 million in 2013 from HRK 7,555 million in 2012. Decrease is driven by voice revenue (HRK 681 million) and miscellaneous revenue (HRK 38 million) slightly compensated by increase in other service revenue (HRK 98 million), non voice revenue (HRK 79 million) and terminal equipment (HRK 30 million).

Negative revenue development was result of intensified competitive pressure from bundled telecommunication offers and downward pressure on pricing, falling consumption and continued economic slowdown. Revenue decline was primarily driven by lower mobile and fixed voice revenue in both business and residential segment. Mobile voice decline was driven by lower number of customers and lower average price of usage coming from saturated mobile market as well as EU roaming regulation. Fixed retail voice decline was driven by lower number of mainlines resulted in lower traffic as well as lower ARPA. Fixed wholesale voice decline was mainly driven by lower international hubbing services as a result of increased competition activities and lower national voice driven by lower interconnection prices starting from January 2013 combined with lower traffic. The fall in voice revenue was accompanied by a decline in miscellaneous mainly due to lower national roaming and revenue from default interest and dunning fees.
Decline in voice and miscellaneous revenues were slightly offset by an increase in other service revenue, non voice and terminal equipment revenues. Increase in other service revenue is driven by higher ICT revenue. Non voice revenue increased due to higher mobile data revenue coming from enhanced volume of data and multimedia packages included in the new tariffs. Additionally, non voice revenue increase was result of higher number of TV customers and higher broadband retail ARPA, but partially compensated by lower SMS revenue and revenue from international global internet access. Higher terminal equipment revenue was mainly caused by split contract effect (entire handset revenue recognized at the moment of handset purchase) and lower subsidy on handsets than in 2012 in mobile segment, and prolonged Christmas promotional activities from 2012 to Q1 2013 in fixed segment.

Contribution of subsidiaries in Group revenue amounted for Iskon HRK 335 million in 2013 (2012: HRK 299 million) and Combis HRK 385 million (2012: HRK 351 million).

The impact of the 6% mobile fee on net revenue from telecom services until its abolition on 9 July 2012 was HRK 56 million.

Operating expenses

Total consolidated operating expenses before depreciation and amortization decreased by 3.6% to HRK 4,181 million in 2013 from HRK 4,339 million in 2012. This was a result of lower employee benefit expenses coming from accrued cost for redundancy payment in 2013 treated as exceptional items, lower write down of asset, material expenses and other expenses, as well as higher work performed by the Group and capitalized.

Material expenses

Material expenses decreased to HRK 1,898 million in 2013 from HRK 1,914 million in 2012 mainly as a result of lower services expenses partially compensated by higher merchandise cost.
Decrease in services expenses by 14.7% mainly came from lower telecommunication costs and copyright fees. International telecommunication cost declined mainly due to lower international hubbing traffic and lower average roaming unit cost. Domestic telecommunication cost decreased mainly due to lower FTR and MTR combined with fixed to other mobile traffic decrease. Copyright costs decreased mainly due to higher content capitalization in 2013.
Merchandise costs increase was mainly driven by ICT that follows revenue development, but also due to higher number of acquired and retained mobile customers and higher share of more valuable tariffs with more expensive handsets.

Employee benefits expenses

Total employee benefits expenses decreased by 7.7% to HRK 1,114 million in 2013 from HRK 1,208 million in 2012. Costs for redundancy in 2013 were booked in amount of HRK 66 million, while in 2012 amounted HRK 144 million. Excluding redundancy cost, employee benefits expenses decreased by HRK 16 million mainly as a result of lower number of FTE. Number of FTE decreased from 5,780 in 2012 to 5,621 in 2013 mainly as a result of Headcount Restructuring program in 2013, partially compensated by new employments coming from company transformation.

Other expenses

Other expenses decreased by 0.7% to HRK 1,205 million in 2013 from HRK 1,213 million in 2012 mainly due to lower sales commissions, postal charges and advertising costs that are partially compensated by higher maintenance, licenses, external employment costs and miscellaneous other operating expenses. Decline in sales commissions was a result of lower number of sales transactions realized through indirect sales channel because of direct sales channel push activities introduced in 2013. Postal charges decreased due to improvement in billing procedures (one bill, e-bill) resulted with lower number of printed invoices and due to more favorable prices for invoice delivery. Advertising cost decreased due to lower level of advertising activities undertaken. Maintenance cost increased due to more fault repairs done in 2013 than 2012. Licenses costs increase was mainly driven by spectrum licenses. External employment costs increased due to intensified activities in telesales and e-business.

Write down of assets

The assets write down decreased by 31.2% to HRK 61 million in 2013 from HRK 89 million in 2012 mainly due to lower value adjustment of receivables and inventories. Decrease of value adjustment of receivables is mainly related to lower amount of invoiced receivables.

Depreciation and amortization

Depreciation and amortization were higher than last year by 3.0% (2013: HRK 1,366 million, 2012: HRK 1,326 million) mostly driven by content capitalization and spectrum licences.

T-HT Group profitability

EBITDA before exceptional items decreased by 12.9% to HRK 3,065 million in 2013 from HRK 3,520 million in 2012. This was a result of lower net revenue by 6.8% and other operating income by 14.7% slightly compensated by lower operating expenses by 1.9%.

Consolidated operating profit decreased by 20.4% to HRK 1,632 million in 2013 from HRK 2,050 million in 2012 as a result of the above mentioned EBITDA and depreciation and amortization development. Consolidated net profit decreased by 15.0% to HRK 1,442 million in 2013 from HRK 1,696 million in 2012. This decrease resulted from lower EBITDA combined with higher depreciation and amortization and decreased net financial income. The amount of profit reinvested was deducted from the tax base in HT Inc and this positively impacted 2013 net income in the amount of HAK 139 million.

Balance sheet

Total value of assets decreased by 2.2% in comparison to last year mainly driven by lower current and non-current assets.
Decrease of current assets was mostly a result of decrease in cash and cash equivalents which is in line with revenue development as well as decrease of inventories coming from higher sales of mobile and fixed equipment in December 2013.

Total issued capital and reserves decreased from HRK 10,899 million at 31 December 2012 to HRK 10,700 million at 31 December 2013 mainly as a result of lower net profit for 2013.
Total current liabilities decreased from HRK 1,935 million at 31 December 2012 to HRK 1,844 million at 31 December 2013 mainly due to utilization of provisions for redundancy.
Noncurrent liabilities are in line with previous year.

Cash flow

Cash flow from operating activities is T-HT's principal source of funds, enabling the Group to finance capital investments and dividend distributions.
Cash flow from operating activities decreased by 21.3% to HRK 2,348 million (2012: HRK 2,982 million) mainly due to lower net profit and increase of current receivables.
Cash flow from investing activities decreased by 3.1% as a result of lower cash inflow from sale of current financial assets and higher investment in capital expenditure.
Compared to previous year, net cash flow from financing activities increased by 7.6% due to lower dividend payments in 2013.

Capital expenditure

Capital expenditure in 2013 amounted HRK 1,426 million and it has been significantly higher than in 2012 (HRK 246 million).
Set of investment strategy has secured business continuity and long term sustainability of HT market position.

Main investment projects that have impacted 2013 were:

Strategic project Mobile broadband deployment enabled outperforms competition in mobile broadband with respect to coverage, scalability and performance.

Strategic project PSTN migration enabled fixed voice service continuity with efficient transformation from obsolete TDM technology to IP. In 2013 eleven (11) local exchanges were shut down.

Investments in Terastream project secured High Speed Broadband Network based on IP protocol version 6. Includes new Customers optical Gigabit home connections, fast provisioning time, new premium 3Play Services virtualized in Datacenter Cloud and improved Customer experience.

MPLS project has in scope migration obsolete 10GE Metro Ethernet Nodes to IP/MPLS platform in 3 Year Project (2013-2015). In 2013 we had installed 51 nodes/locations and have migrated 37 nodes/locations.

Continuing investment in ICT Products & Solutions, in 2013 main focused was Fiscalization project.

Long term perspective has been articulated throughout corporate Transformation program. These changes are reflecting in replacing legacy processes with on-line process, adjusting /replacing supporting systems accordingly and full enablement of on-line based business model.

In real estate area major investment were in refurbishment of buildings in Zagreb Selska for new data center and Draškovićeva for call centre relocation.

Other important capital expenditures were capitalization of Content provider costs and Spectrum licenses for 800MHz band.

Analysis of segment results

Residential Segment Financial review

Revenue

In 2013, total residential revenues declined by 4.0% (HRK 168 million) compared to the same period last year and resulted with HRK 3,992 million. This decrease was mainly resulted by lower voice revenues in fixed as well in mobile network, in combination with lower miscellaneous revenue, but partially mitigated by higher non voice revenue, terminal equipment and other service revenue.
This negative revenue development is an extension of the negative trend from previous year, mostly as a result of ongoing rough macroeconomic environment, high competitiveness and strict regulation of fixed business.

Voice revenue

Mentioned total revenues decline in 2013 compared to the same period last year was driven mostly by the drop of voice revenues by 11.7% (HRK 274 million). Negative development came both from fixed and mobile network.

Fixed voice revenue declined by 10.4% (HRK 126 million). Compared to the last year, the drop is a result of lower number of retail mainlines by 5.8% and fix to mobile substitution. In the same period number of minutes dropped by 14.7%. Due to all mentioned, stronger competition and continuous price war, ARPA declined by 7.5%.

Additional HRK 148 million of deviation is coming from mobile segment, mainly due to lower retail revenue (HRK 123 million), but also lower wholesale revenue (HRK 25 million). Negative deviation in revenue was caused by lower average revenue per customer comparing to the same period last year, both in postpaid and prepaid.

Despite of higher postpaid customer base by 9.7%, lower postpaid revenue by HRK 75 million is caused by lower ARPU due to customer optimization on flat tariffs, fierce competition, downward pressure on pricing, roaming regulation and rough macroeconomic environment. At the same time, flat tariffs increased outgoing minutes of use by 37.4%. Postpaid termination revenue contributed to the negative voice revenue deviation due to decrease of unitary termination price.

Lower prepaid revenue by HRK 73 million is caused by lower customer base by 6.4% and lower ARPU. Lower prepaid customer base is caused by lower number of acquired customers due to very aggressive competitor MNP offer.Lower prepaid ARPU is a result of drop of MTR prices and lower number of recharges.

Non voice revenues

Compared to the last year, in 2013 non voice revenues increased by 6.0% (HRK 96 million) as a result of higher revenue from fixed and mobile postpaid and prepaid services.

Increase in fixed revenues for 4.2% (HRK 44 million) was driven by higher broadband retail ARPA by 1.8% (4Q 2013: HRK 126 vs. 4Q 2012: HRK 124), mainly due to push of high access speeds. Also, TV revenue rose in 4Q 2013 due to higher number of TV customers and TV ARPU. In period of one year, TV customer base has increased for 25 thousand customers (7.3%), while higher TV ARPU is caused by push of additional packages, especially sport and HBO packages.

Mobile services rose 9.6% (HRK 52 million), mostly due to postpaid segment (HRK 49 million). Prepaid revenue also recorded slight non-voice revenue increase by 1.2% (HRK 3 million).
In mobile business, redistribution of non-voice revenue in favour of data revenue is visible due to enhanced volume of data and multimedia packages included in the new tariffs. Such development is in line with global trend, where average mobile user is from year to year more oriented on advanced services such as data transmission and less on traditional non voice services such as SMS. This trend is also present in prepaid business where attractive offers with data packages are available.

Terminal equipment

Terminal equipment revenues in 2013 were higher than last year, showing increase of 17.2% (HRK 23 million). This positive deviation was a result of higher realization in both mobile and fixed business.

Positive deviation in mobile segment (HRK 16 million) is mainly caused by split contract effect (entire handset revenue recognized at the moment of handset purchase), MAXobitelj promotion with included smartphones and lower subsidy on handsets than in 2012.

Positive deviation in fixed segment (HRK 7 million) is caused by MAXobitelj promotional activities offering Samsung tablet at affordable prices and prolonged Christmas promotional activities from 2012 to Q1 2013.

Miscellaneous

Lower miscellaneous revenue by 21.2% (HRK 17 million) compared to 2012 is mostly driven by lower interest revenue and termination of revenue from dunning letters starting from August 2012, due to regulatory decision.

Contribution to EBITDA

Contribution to EBITDA in 2013 was lower compared to last year by 3.5% (HRK 102 million), resulted from lower total revenue (HRK 168 million) and lower total cost (HRK 66 million).

Main positive impact on the cost side is coming from lower copyright fees (HRK 45 million), sales commissions cost (HRK 23 million), losses on accounts receivables (HRK 12 million), telecommunication services cost (HRK 10 million) and SAC/SRC extended costs (HRK 1 million), partially offset by higher merchandise (HRK 24 million) and indirect costs (HRK 1 million).

Lower copyright fees are caused by higher share of capitalized content rights contracts. However, there are higher number of TV customers and higher number of additional TV packages, especially sport and HBO packages. Lower sales commission cost is a result of lower number of sales transactions realized through indirect sales channel. Lower losses on accounts receivables are mainly result of revenue development and better debt collection. Lower telecommunications services costs are result of new roaming regulation since July 2013 as well as FTR and MTR unitary price decrease.
Merchandise cost is higher mostly due to the mobile segment as a result of higher number of new postpaid customers achieved and due to different tariff mix (higher share of more valuable tariffs with more expensive handsets). Also, MAXobitelj promotion with included smartphones is contributing to higher merchandise cost than last year.

Business Segment financial review

Revenue

Total business revenue in 2013 recorded a decline of HRK 345 million or 10.2% compared to last year and resulted with HRK 3,051 million. This decline is mostly driven by lower voice revenues in all segments, combined with lower non voice in retail fixed and wholesale and lower miscellaneous revenue. Negative development is partially compensated by increase in other service revenues driven by ICT, and terminal equipment.
Such revenue development is an extension of the negative trend from previous year and is mostly affected by macro-economic environment, regulatory surrounding and fierce competition.

Voice revenue

Total voice revenue in 2013 recorded 25.4% or HRK 407 million lower results than last year.
Mobile voice revenue contributed to overall voice revenue decline with HRK 246 million lower revenue or 33.1%. Mobile retail revenue decreased by HRK 157 million and is driven by lower average price of usage. Despite stable customer base (slight increase of 0.5%) and higher number of minutes per average customer by 2.1%, prices are lower due to fierce price competition in saturated mobile market. Additionally, EU regulation as of 2013, July 1st, led to lower prices in roaming. Still overall unfavourable macro-economic environment continuously influenced downward trend in mobile industry. MTC revenue dropped by 26.6% (HRK 23 million) as a result of national and international mobile termination rate (MTR) decline. All mentioned led to an ARPU decrease.

Visitors revenue declined by HRK 66 million or 47.7% due to significantly lower prices (implementation of EU regulation), although voice traffic (generated by foreign roaming visitors in our mobile network) considerably increased.

Fixed voice revenue is below last year figures by HRK 100 million or 21.7%. This is a result of lower number of retail mainlines (8.7%), including substitution of fixed with mobile and Internet services. Therefore minutes of use decreased by 28.9%. In total, voice ARPA declined by 15.1% to HRK 184.
Fixed wholesale revenue decreased by HRK 61 million or 18.8%. This is mostly driven by lower revenue from international voice services by HRK 53 million as international hubbing traffic declined due to increased competition activities. Additionally, lower revenue from international termination to other mobile networks resulted from lower international MTR as of July 2013. National voice revenues decreased by HRK 9 million mostly due to lower IC prices starting from January 2013 combined with lower traffic.

Non voice revenue

Compared to last year, non-voice revenue in 2013 decreased by HRK 17 million (1.5%), as a result of lower fixed retail (HRK 17 million) and wholesale revenue (HRK 11 million). This is partially compensated by revenue growth in mobile part (HRK 11 million).

In fixed retail part, revenue drop was driven by lower revenue from data (HRK 13 million). This is a result of lower revenue from Ethernet services (contributing with 75.5% in total data revenue) due to fierce price competition on Ethernet market and migration from traditional data to IP data service. Additionally, Internet revenue decreased by HRK 4 million.

Wholesale non voice revenues recorded underachievement by 3.6% (HRK 11 million) mostly due to lower revenues from international global internet access resulting from market price reduction. Revenues from national data are below last year due to decrease of capacities and lower prices. Number portability revenue also declined as a result of charging fee abolishment at the end of 2012.

Increase in mobile revenue (HRK 11 million) was driven by higher postpaid retail revenue (HRK 19 million). In non-voice mobile revenue, redistribution in favour of data revenue is visible. Share of postpaid retail data revenue has increased from 69.0% to 77.9% year over year. Such development is in line with overall market trends, with more and more tariffs including data traffic in basic packages. It reflects customers' behaviour regarding usage of more advanced services such as data transmission and less usage of traditional non voice services such as SMS, which recorded decrease of 24.1%. While postpaid non-voice revenue recorded growth, revenue underachievement is recorded in prepaid retail revenue (HRK 7 million) mostly due to lower number of prepaid business customer than in the same period last year (2.6%).

Other service revenue

Other service revenue increased by HRK 94 million in 2013 as a result of higher ICT revenue (HRK 101 million) partially offset by lower postpaid subscription (HRK 7 million). ICT revenue increased by 25.5% from HRK 396 million in 2012 to HRK 498 million in 2013.
ICT revenue growth is mainly driven by HT ICT further development of its standard services portfolio (e.g. Cloud services, Market place, Fiscalization) and additionally driven by solutions delivered to key accounts (MS licences for Podravka, ERP UPD for HP, Valamar – Fidelio Hotel solution), which resulted with higher HT ICT revenue by HRK 62 million. Combis contributed positively as well (HRK 34 million) due to improvement in all its business segments, particularly in Professional solutions, IT infrastructure, Network infrastructure and connectivity and IP communication. Iskon resulted with a positive contribution (HRK 5 million) due to enhancement of solution for HT Mostar.

On the other hand, postpaid basic subscription revenue is HRK 7 million lower due to increased number of customers with bundle tariffs whose revenue is posted based on voice and non-voice and not as subscription fee.

Terminal equipment

Terminal equipment revenue in 2013 increased by 14.2% (HRK 7 million). Positive year over year developments driven by revenue from mobile terminal equipment that increased by 14.5% (HRK 7 million). This is mainly caused by split contract effect (entire handset revenue recognized at the moment of handset purchase) and higher number of retained customers by 23.1%, and 50.6% higher number of acquired customers.

Miscellaneous revenue

Miscellaneous revenue in 2013 is lower by HRK 22 million (12.9%) than last year. This is driven by lower mobile wholesale revenue (HRK 21 million) mostly as a result of lower national roaming prices.

Contribution to EBITDA

Contribution to EBITDA in 2013 is below 2012 by HRK 427 million, resulting from lower total revenue (HRK 345 million) and higher total cost (HRK 82 million).
Main negative impacts on the costs side are coming from higher merchandise costs (HRK 126 million), mainly due to merchandise cost related to increase in ICT revenue. Sales commission costs are higher by HRK 3 million due to stronger sales activities via indirect partners. Copyright fees are higher by HRK 2 million. Usage related direct costs are lower by 22.0% (HRK 101 million), mainly as a result of lower international telecommunication services cost by HRK 74 million. This is mostly driven by lower international hubbing traffic and average roaming unit cost decline. Domestic telecommunication services costs are lower by HRK 26 million mainly due to lower FTR and MTR combined with fixed to other mobile traffic decrease. Losses on accounts receivables decline by 20.4% (HRK 12 million) mainly due to lower revenue development. Indirect costs increased by 18.6% (HRK 64 million) mostly due to license costs, other expenses, advertising costs and expatriot costs.

Network and Support Functions Financial review

Contribution to EBITDA

The contribution to EBITDA rose (HRK 73 million) to HRK -1,416 million as a result of lower operating expenses, partially mitigated with lower other operating income.

Operating expenses excluding exceptional items decreased when compared to previous year by 5.9%. This decrease is mainly driven by lower indirect costs (HRK 65 million) and lower employee benefits expenses (HRK 19 million) mainly as a result of lower number of FTE, as well as by higher work performed by the Group and capitalized (HRK 13 million). Decrease in indirect costs is driven by lower postal charges because of improvement in billing procedures (one bill, e-bill).

Other operating income decreased by 14.7% compared to 2012 mainly as a result of land registration in 2012, lower real estate sales revenues and lower rest of other operating income.

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") give a true and fair view of the financial position and results of Croatian Telecom Inc. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing those consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position of the Group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accompanying consolidated financial statements were approved for issuance by the Management Board on 11 February 2014.

On behalf of the Group,

Mr. Davor Tomašković
President of the Management Board (CEO)

Croatian Telecom Inc.
Savska cesta 32
10000 Zagreb
Republic of Croatia
11 February 2014

INDEPENDENT AUDITOR'S REPORT

To the shareholders and Board of directors of Croatian Telecom Inc.

We have audited the accompanying consolidated financial statements of Croatian Telecom Inc. and its subsidiaries (the 'Group') which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Emphasis of matter

Without qualifying our opinion, we draw attention to Notes 11 and 26 b) to the consolidated financial statements, which describe the uncertainty related to the ownership of distributive telecommunications infrastructure (DTI) of which the net book value recognised as assets by the Group as at 31 December 2013 is HRK 838 million. Efforts are being undertaken by the Group to obtain certain legal documents and registrations necessary to fully evidence the Group's ownership of these assets. The Group is defending a lawsuit claiming ownership of DTI in the city of Zagreb together with a demand for payment of HRK 390 million plus interest in respect of the Group's use of these assets in prior years. The Group has not recognised any adjustments to its assets and liabilities in respect of these matters due to the uncertainty as to their outcome and their impact on the financial statements.

PricewaterhouseCoopers d.o.o.
Zagreb, 12 February 2014

John Mathias Gasparac Member of the Management Board	Hrvoje Zgombić President of the Management Board	Tamara Maćašović Certified Auditor

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HRK millions	2012 HRK millions Restated
Revenue	3	7,042	7,555
Other operating income		137	160
Merchandise, material and energy expenses		(1,009)	(872)
Service expenses	4	(889)	(1,042)
Employee benefits expenses	6	(1,114)	(1,208)
Work performed by the Group and capitalised		97	85
Depreciation, amortization and impairment of non-current assets	5	(1,366)	(1,326)
Other expenses	7	(1,266)	(1,302)
Operating profit	3	1,632	2,050
Finance income		47	78
Finance costs		(71)	(63)
Finance (costs)/income – net		(24)	15
Share of profit of investments accounted for using the equity method	12	21	27
Profit before income tax		**1,629**	**2,092**
Income tax expense	8	(188)	(396)
Profit for the year		1,441	1,696
Other comprehensive income/(loss) for the year			
Items that will not be reclassified to comprehensive income			
Remeasurement of post employment benefit obligations		25	(5)
Equity-settled share based payments		0	0
		25	(5)
Items that may be subsequently reclassified to comprehensive income			
Change in value of available for sale financial assets		(0)	2
		(0)	2
Other comprehensive income/(loss) for the year, net of tax		25	(3)
Total comprehensive income for the year, net of tax		1,466	1,693
Profit attributable to:			
Owners of the Company		1,441	1,696
		1,441	1,696
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		1,466	1,693
		1,466	1,693
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	9	HRK 17.60	HRK 20.71

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	31 December 2013	31 December 2012
		HRK millions	HRK millions
ASSETS			
Non-current assets			
Intangible assets	10	1,358	1,142
Property, plant and equipment	11	5,570	5,733
Investments accounted for using the equity method	12	398	398
Available-for-sale financial assets	13	196	499
Trade and other receivables	16	126	21
Deferred income tax assets	8	60	65
Total non-current assets		**7,708**	**7,858**
Current assets			
Inventories	15	115	155
Trade and other receivables	16	1,251	1,215
Prepayments		149	149
Income tax prepayments		206	4
Available-for-sale financial assets	13	384	86
Loans to banks	14	317	239
Time deposits	17 b)	651	261
Cash and cash equivalents	17 a)	2,039	3,146
Total current assets		**5,112**	**5,255**
TOTAL ASSETS		**12,820**	**13,113**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	31 December 2013	31 December 2012
		HRK millions	HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	22	8,189	8,189
Legal reserves	23	409	409
Fair value reserves		(1)	(1)
Retained earnings	24	2,103	2,302
Total issued capital and reserves		10,700	10,899
Non-current liabilities			
Provisions for other liabilities and charges	21	62	87
Employee benefit obligations	20	70	140
Deferred income	19	4	2
Other liabilities	18	138	50
Deferred income tax liability	8	2	-
Total non-current liabilities		276	279
Current liabilities			
Trade payables and other liabilities	18	1,666	1,577
Provisions for other liabilities and charges	21	53	230
Deferred income	19	120	122
Borrowings		5	6
Total current liabilities		1,844	1,935
Total liabilities		**2,120**	**2,214**
TOTAL EQUITY AND LIABILITIES		**12,820**	**13,113**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.
Signed on behalf of the Group on 11 February 2014:

Mr. Davor Tomašković
President of the Management Board (CEO)

Mr. Jens Hartmann
Member of the Management Board of HT d.d.
and Chief Operating Officer Business

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 HRK millions	2012 HRK millions
Operating activities			
Profit before income tax		1,629	2,092
Depreciation, amortization and impairment of non-current assets	5	1,366	1,326
Interest income		(23)	(54)
Gain on disposal of assets		(50)	(58)
Share of profit in joint venture	12	(21)	(27)
Decrease in inventories		40	20
(Increase)/Decrease in receivables and prepayments		(157)	89
Increase in payables and accruals		146	104
Decrease in employee benefit obligations	20	(53)	(18)
Decrease in provisions		(145)	(50)
Other non-cash items		1	(9)
Cash generated from operations		2,733	3,415
Income tax paid		(385)	(433)
Net cash flows from operating activities		2,348	2,982
Investing activities			
Purchase of non-current assets	3, 10, 11	(1,426)	(1,180)
Proceeds from sale of non-current assets		70	64
Purchase of available-for-sale financial assets		(757)	(1,481)
Proceeds from sale of available-for-sale financial assets		374	1,045
Purchase of reverse REPO arrangements	14	(463)	(634)
Proceeds from reverse REPO arrangements	14	385	395
Interest received		25	48
Dividend received	12	21	25
Net cash flows used in investing activities		**(1,771)**	**(1,718)**
Financing activities			
Repayment of lease liability and borrowings		(7)	(12)
Dividends paid	24	(1,679)	(1,813)
Net cash flows used in financing activities		**(1,686)**	**(1,825)**
Net decrease in cash and cash equivalents		(1,109)	(561)
Exchange gains on cash and cash equivalents		2	3
Cash and cash equivalents as at 1 January		3,146	3,704
Cash and cash equivalents as at 31 December	**17 a)**	**2,039**	**3,146**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Issued share capital HRK millions (Note 22)	Legal reserves HRK millions (Note 23)	Fair value reserves HRK millions	Retained earnings HRK millions (Note 24)	Total HRK millions
Balance as at 1 January 2012	8,189	409	(3)	2,424	11,019
Profit for the year	-	-	-	1,696	1,696
Other comprehensive loss for the year	-	-	2	(5)	(3)
Total comprehensive income for the year	-	-	2	1,691	1,693
Dividends paid to equity holders of the Company	-	-	-	(1,813)	(1,813)
Balance as at 31 December 2012	8,189	409	(1)	2,302	10,899
Effect of changes in accounting policies (Note 2.2.)	-	-	-	14	14
Profit for the year	-	-	-	1,441	1,441
Other comprehensive income for the year	-	-	(0)	25	25
Total comprehensive income for the year	-	-	(0)	1,466	1,466
Dividends paid to equity holders of the Company	-	-	-	(1,679)	(1,679)
Balance as at 31 December 2013	8,189	409	(1)	2,103	10,700

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1 Corporate information

Croatian Telecom Inc. ("HT" or the "Company") is a joint stock company whose majority shareholder is T-Mobile Global Holding Nr. 2 GmbH. Pursuant to the Share transfer agreement concluded in 2013, Deutsche Telekom AG ("DT AG") has transferred a total of 41,763,153 shares of the Company, representing 51% of the issued share capital of the Company and the same number of votes at the General Assembly of the Company, to T-Mobile Global Holding Nr. 2 GmbH, a company 100% owned by DT AG. The said transfer of shares was executed as a part of the internal restructuring performed within DT AG and as a result thereof DT AG's influence in the Company remains unchanged. DT AG is ultimate controlling parent.

The registered office address of the Company is Savska cesta 32, Zagreb, Croatia.
The total number of employees of the Group as at 31 December 2013 was 5,830 (31 December 2012: 5,999).

The principal activities of the Group are described in Note 3.

The consolidated financial statements for the financial year ended 31 December 2013 were authorized for issue in accordance with a resolution of the Management Board on 11 February 2014. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. The consolidated financial statements also comply with the Croatian Accounting Act on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets (Note 13), as disclosed in the accounting policies hereafter.

The Group's consolidated financial statements are presented in Croatian Kuna ("HRK") which is the Group's presentation currency. All amounts disclosed in the consolidated financial statements are presented in millions of HRK if not otherwise stated.

The consolidated financial statements include the financial statements of Croatian Telecom Inc. and the following subsidiaries comprise together HT Group:

		Ownership interest	
		31 December	31 December
Entity	Country of Business	2013	2012
Combis d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%
E-tours d.o.o.	Republic of Croatia	100%	-

E-tours d.o.o. is the company 100% owned by Iskon Internet d.d. until 27 September 2013.

2.2. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated and disclosed.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income ("OCI") on the basis of whether they are potentially reclassifiable to comprehensive income subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment affects presentation only and therefore did not have an impact on the Group's financial position or performance.

IAS 19 Employee Benefits (revised 2011) and Amendment to IAS 19 (effective for annual periods beginning on or after 1 January 2013)

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. IAS 19 Employee benefits was revised in June 2011. The revised employee benefit standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognising an expected return on plan assets. The primary effect of revised IAS 19 relates to the recognition of past service cost. Under IAS 19 (revised 2011), past service cost have to be recognized immediately in the statement of comprehensive income. Prior to the amendments, past service costs had to be amortized in the statement of comprehensive income on a straight-line basis over the vesting periods.

The change in accounting policy has been accounted for from the period beginning on 1 January 2013 and the effects are shown as follows:

Statement of financial position

Position	Impact of change HRK millions
Employee benefit obligations	(17)
Deferred income tax liability	3
Retained earnings	14

Amendment to IFRS 1 First Time Adoption on Government Loans (effective for annual periods beginning on or after 1 January 2013)

This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. This amendment is not relevant to the Group's operations because the Group is not first-time adopter neither the user of government loans.

Amendment to IFRS 7 Financial Instruments: Disclosures on Asset and Liability Offsetting (effective for annual periods beginning on or after 1 January 2013)

This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The amendment had an impact on disclosure only, but not on measurement and recognition of the financial instruments in the Group's financial position or performance.

The following financial assets and financial liability are subject to offsetting:

	Trade receivables		Trade payables	
	31 December 2013 HRK millions	31 December 2012 HRK millions	31 December 2013 HRK millions	31 December 2012 HRK millions
Gross recognised amounts	131	217	368	612
Offsetting amount	(90)	(175)	(90)	(175)
	41	42	278	437

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. IFRS 13 did not have an impact on Group's financial statements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013)

This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. This interpretation is not relevant to the Group's operations.

Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013)

These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:

IFRS 1	First time adoption
IAS 1	Financial statement presentation
IAS 16	Property plant and equipment
IAS 32	Financial instruments; Presentation
IAS 34	Interim financial reporting

These improvements did not have impact an impact on Group's financial statements.

Standards and interpretations issued but not yet effective:

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The Group is currently assessing the impact that IFRS 10 will have on the financial statements but does not expect any impact on them. The Group plans to adopt this new standard on its effective date.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is currently assessing the impact that IFRS 11 will have on the financial statements but does not expect any impact on them. The Group plans to adopt this new standard on its effective date.

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is currently assessing the impact of IFRS 12 on financial statements. The Group plans to adopt this new standard on its effective date.

IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Group is currently assessing the impact that IAS 27 will have on the financial statements but does not expect any impact on them. The Group plans to adopt this new standard on its effective date.

IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)

IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Group is currently assessing the impact that IAS 28 will have on the financial statements but does not expect any impact on them. The Group plans to adopt this new standard on its effective date.

Amendment to IFRSs 10, 11 and 12 on Transition Guidance (effective for annual periods beginning on or after 1 January 2014)

These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its financial statements but does not expect any impact on them. The Group plans to adopt this amendment on its effective date.

Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment Entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014)

These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through comprehensive income. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make. The Group is currently assessing the impact of the amendments on its financial statements but does not expect any impact on them. The Group plans to adopt this amendment on its effective date.

Amendments to IAS 32 Financial Instruments: Presentation on Asset and Liability Offsetting (issued in December 2012 and effective for annual periods beginning on or after 1 January 2014)

These amendments are to the application guidance in IAS 32 Financial instruments: Presentation, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Group is currently assessing the impact of the amendments that could have an impact on presentation in Group's financial statements. The Group plans to adopt this new amendment on its effective date.

Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014)

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment could have an impact on disclosure only, but not on measurement and recognition of the assets in the Group's financial position or performance. The Group plans to adopt this amendment on its effective date.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement 'Novation of Derivatives' (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014)

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria. The amendment is not relevant for the Group's operations because derivatives are not used. The Group plans to adopt this amendment on its effective date.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015)

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group does not expect IFRS 9 to have an impact on the financial statements. The Group plans to adopt this new standard on the effective date as of and when endorsed by the EU.

IFRIC 21 Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014)

This is an interpretation of IAS 37 Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group does not expect IFRIC 21 to have an impact on the financial statements. The Group plans to adopt this new interpretation on the effective date as of and when endorsed by the EU.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, during the reporting period or at the reporting date respectively. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments if and what amount needs to be provided for in the financial statements as more explained in Notes 21 and 26. Changes in these judgments could have a significant impact on the financial statements of the Group.

Impairment of non-financial assets

The determination of impairment of assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of the business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for those products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates given in Note 10. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details including carrying values and effects on the result of the period are given in Notes 10 and 11.

Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that this is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and is heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in Group's total assets, the impact of significant changes in these assumptions could be material to financial position and results of operations of the Group.

The following table demonstrates the sensitivity to a reasonably possible change in useful life on amortization and depreciation, with all other variables held constant, on the Group's profit post tax:

	Increase/ decrease in %	Effect on profit post tax
		HRK millions
Year ended 31 December 2013	+10	92
	-10	(87)
Year ended 31 December 2012	+10	90
	-10	(85)

2.4. Summary of accounting policies

a) Operating profit

Operating profit is defined as the result before income taxes and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, treasury bills, interest bearing available for sale financial assets, share of profit and loss from associate and joint venture, interest expense on borrowings, gains and losses on the sale of available-for-sale financial assets and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

b) Business Combinations and Goodwill

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Investment in associate

In the Group's financial statements, investment in associated company (generally a shareholding of between 20% and 50% of voting rights) where significant influence is exercised by the Group are accounted for using the equity method less any impairment in value. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. An assessment of investment in associate is performed when there is an indication that the asset has been impaired or that the impairment losses recognized in previous years no longer exist.
When the Group's share of losses in an associate equals or exceeds its interest in the company, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized gains or losses on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the company.

d) Investment in joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as the parent company.

Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Interest in the joint venture is derecognized at the date on which the Group ceases to have joint control over the joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the company, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealized gains or losses on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the company.

e) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized in the event that the future economic benefits that are attributable to the assets will flow to the Group, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful life. There are no intangible assets that are assessed to have an indefinite useful life. The amortization method is reviewed annually at each financial year-end.

Amortization of the telecommunication licence has started when licence is acquired, the amortization period is the term of the licence.

The Group recognizes costs of content as an intangible asset at the inception of related contract. The Group determined that the following conditions have to be met for capitalization of content provider contracts: contract duration must be longer than one year, cost must be determined or determinable, contracted rights must be continuous and costs under the contract are unavoidable. Assets recognized under these contracts will be amortized over the contract period.
Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	20 years
Radio frequency spectrum in 900/1800 MHz frequency bands	15 years
Radio frequency spectrum in 800 MHz frequency band	11 – 12 years
Right of servitude for Distributive Telecommunication Infrastructure DTI)	30 years
Software, content and other assets	2 – 5 years

Assets under construction are not amortised.
Goodwill arises on the acquisition of subsidiaries. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount, based on value in use estimations, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 10 for more details.

f) Property, plant and equipment

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services.

After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line basis.
Useful lives of newly acquired assets are as follows:

Buildings	10 – 50 years
Telecom plant and machinery	
Cables	8 – 18 years
Cable ducts and tubes	30 years
Other	2 – 15 years
Tools, vehicles, IT, office and other equipment	4 – 15 years
Customer premises equipment (CPE)	7 years

Land and assets under construction are not depreciated.
The useful life, depreciation method and residual values are reviewed at each financial year-end, and if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.
Construction-in-progress represents plant and properties under construction and is stated at cost.
Depreciation of an asset begins when it is available for use.

g) Impairment of assets

Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment is reviewed for possible reversal of the impairment at each reporting date.

Impairment of trade receivables
A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired. Value adjustment is done for outstanding domestic receivables older than 120 days, and for outstanding foreign receivables that are due more than 150 days. Value adjustment for receivables from subsidiaries, domestic telecommunication operators, receivables for the international settlement and key customers under extraordinary collection method and from companies with whom prebankruptcy procedures has been made value adjustment is done according to the collection estimate. Short-term receivables are written-off in the case when the debtor is liquidated or ceased its business activities; when the legal case is lost by the final court decision or in the case of lapse of receivables.

Impairment of available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

h) Inventories

Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs necessary to make the sale. Cost is determined on the basis of weighted average cost.
Phone sets are often sold for less than cost in connection with promotions to obtain new and/or retain existing subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as an inventory impairment immediately.

i) Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, the receivables are presented as non-current assets. Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

j) Foreign currencies

Transactions denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the statement of comprehensive income within financial income or financial expense, respectively.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;
b. income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and
c. all resulting exchange differences are recognized in statement of other comprehensive income.

k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the assets and the lease term.

l) Taxation

The income tax charge is based on profit for the year and includes deferred taxes. Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at the reporting date.

Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Current tax and deferred tax are charged or credited in other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period in other comprehensive income.

m) Employee benefit obligations

The Group provides other long-term employee benefits (Note 20). These benefits include retirement and jubilee (length of service) payments. The defined benefit obligation is calculated annually by independent actuary using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognized in statement of comprehensive income immediately in the period in which they occur. Gains or losses on the curtailment or settlement of benefit plans are recognized when the curtailment or settlement occurs. The benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The Group provides death in service short term benefits which are recognized as an expense of the period in which it incurred.

n) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements with the exception of the provision of its telecommunications infrastructure to third parties that offer value added services to its customer. In these cases, the Group is acting as an agent.

Revenue from fixed telephony includes revenue from activation fees, monthly fees, calls placed by fixed line subscribers and revenue from additional services in fixed telephony. Revenue from activation fees is recognized on a straight-line basis throughout future periods depending on estimated life of a customer's connection. Estimated life is 6 years in 2013 (2012: 3 years).

Revenue from wholesale services includes interconnection services for domestic and international carriers, and revenue from usage of network by other operators.

Revenues from the provision of its network to the provider of value added services are reported on a net basis. Revenues are exclusively the amount of the commission received.

Third parties using the Group's telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the Group's network. These wholesale (incoming) traffic revenues included in voice and non-voice (data and internet) revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these transit calls are stated gross in the financial statements as the Group is the principal supplier of these services using its own network freely defining the pricing of the services, and recognized in the period of related usage.

Revenue from mobile telephony includes revenue from monthly fee and call charges for "post-paid" mobile customers, call charges for "pre-paid" mobile customers, call charges for customers of international mobile operators when roaming on the Group's mobile network, sale of mobile handsets, domestic interconnection revenues related to mobile network, revenues for short and multimedia messages and data traffic revenues.

Revenue from unused tariff packages and prepaid vouchers is recognized when they are realised. Before their realisation, they are recorded as deferred revenues.

The Group offers certain multiple-element arrangements (bundled product offers) arrangements. For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated). The relative fair value of an individual element is limited by the proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements. If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the total arrangement consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total arrangement consideration and the fair value of the undelivered elements.

Revenue from internet and data services includes revenue from leased lines, frame relay, ATM, Ethernet services, ADSL subscription and traffic, fixed line access, VPN online, internet traffic to T-Com call number, Multimedia services, IP phone (access and traffic) and IPTV. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions.

Revenue from ICT includes revenue from restructuring business processes services, application management services, technology infrastructure and system maintenance and the design and development of complex IT systems to a client's specifications (design and build) and WEB hosting.

Revenues from application management services, technology infrastructure and system maintenance are recognised on a straight-line basis over the term of the contract. Revenues from time and material contracts are recognised based on contracted prices and direct cost incurred. Revenue from product maintenance contracts are recognized on a straight-line basis over the delivery period.

Revenues and expenses from fixed-price design and build contracts where the outcome can be estimated reliably are recognised under percentage-of completion (POC) method. Estimates are revised and can result in decrease or an increase of estimated revenues and expenses and are included in statement of comprehensive income in the year in which circumstances that give rise to the revision become known to management.

Revenues from one-time-charge licensed software are recognized at the inception of licence term all revenue recognition criteria have been met. Revenues from monthly licence charges are recognised on a subscription basis over the period that the client is entitled to use the licence. Revenues for maintenance, unspecified upgrades and technical support are recognised over the period such items are delivered.

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement.

Revenue from dividends is recognized when the Group's right to receive the payment is established.

Interest revenue is recognized as interest accrues (using the effective interest rate that is the rate that exactly discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

The Group maintains a loyalty point's programme, T-Club. In accordance with IFRIC 13, customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and which are subject to an insignificant risk of change in value.

p) Borrowings

Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings, are expensed in the period in which they are incurred, except those which directly attributable to the acquisition, construction or production of qualifying assets and are capitalised. Borrowings are initially recognized in the amount of the proceeds received net of transaction costs.

q) Financial assets

All investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Available-for-sale financial assets are classified as current assets if management intends to realise them within 12 months after the statement of financial position date. All purchases and sales of investments are recognized on the settlement date.

Financial assets are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale financial assets and trading financial assets are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the statement of financial position date. Gains or losses on measurement to the fair value of available-for-sale financial assets are recognized in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the net profit or loss for the period.

Financial instruments are generally recognized as soon as the Group becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. A financial asset is derecognized when the cash is collected or the rights to receive cash from the assets have expired. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Securities purchased under agreements to resell ("reverse REPOs") are recorded as loans to banks and cash equivalents, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

r) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

Provisions for termination benefits are recognized when the Group is demonstrably committed to a termination of employment contracts, that is when the Group has a detailed formal plan for the termination which is without realistic possibility of withdrawal. Provisions for termination benefits are computed based on amounts paid or expected to be paid in redundancy programs.

s) Contingencies

A contingent asset is not recognized in the financial statements but is disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

t) Share-based payments

The cost of cash-settled and equity-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 31. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognized in the statement of comprehensive income.

u) Events after reporting period

Post-year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

v) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

w) Dividend distribution

Dividend distribution to the Group's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

x) Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares.

y) Reclassifications

In 2013, the Group has changed the presentation of certain ancillary income within statement of comprehensive income. In order to reconcile the presentation of comparable period data with data presented in 2013, following positions in the financial statements for the year ended 31 December 2012 were reclassified:

Statement of comprehensive income

Position	2012 As reported HRK millions	Impact on change HRK millions	2012 Restated HRK millions
Revenue	7,456	99	7,555
Other operating income	259	(99)	160

The Group believes that presentation of all ancillary income in connection with the delivery of goods and rendering of services in the course of an entity's ordinary activities should be presented as revenue (e.g. dunning fees, contractual penalties, fees charged for the (temporary) disconnection or reconnection of services, reimbursements of costs from third parties and default interest). In other words: if income from the agreed consideration of a rendered service is treated as revenue, the same holds true for all other amounts charged to the customer in conjunction with this service. Such ancillary income primarily results from customers' defaults. Such accounting treatment is in alignment with the now predominant accounting practice in telecommunication industry followed by DT AG and consequently the Group believes the new way of presentation is more appropriate. The Group believes that third statement of financial position is not necessary to be presented because there is no any impact on the financial position of previous periods.

3 Segment information

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

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

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

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

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

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

Management of the Group does not monitor assets and liabilities by segments and therefore this information has not been disclosed. Fully owned subsidiaries Iskon Internet, Combis, KDS and E-tours are consolidated within the respective operating segments.

Residential and Business segments

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

Year ended 31 December 2012	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Total HRK millions
Segment revenue (restated) (Note 2.4. y))	4,160	3,395	-	7,555
Service revenues	**3,947**	**3,180**	**-**	**7,127**
Terminal equipment	**134**	**49**	**-**	**183**
Other (restated)	**79**	**166**	**-**	**245**
Usage related direct costs	(318)	(458)	-	(776)
Income and losses on accounts receivable	(8)	(59)	-	(67)
Contribution margin I (restated)	3,834	2,878	-	6,712
Non-usage related direct costs	(533)	(424)	-	(957)
Segment result (restated)	3,301	2,454	-	5,755
Other income (restated) (Note 2.4. y))	-	-	160	160
Other operating expenses	(405)	(341)	(1,793)	(2,539)
Depreciation, amortization and impairment of non-current assets	-	-	(1,326)	(1,326)
Operating profit (restated)	2,896	2,113	(2,959)	2,050
Capital expenditures	391	141	648	1,180
Year ended 31 December 2013				
Segment revenue	3,991	3,051	-	7,042
Service revenues	**3,772**	**2,850**	**-**	**6,622**
Terminal equipment	**157**	**56**	**-**	**213**
Other	**62**	**145**	**-**	**207**
Usage related direct costs	(307)	(357)	-	(664)
Income and losses on accounts receivable	3	(47)	-	(44)
Contribution margin I	3,687	2,647	-	6,334
Non-usage related direct costs	(488)	(555)	-	(1,043)
Segment result	3,199	2,092	-	5,291
Other income	-	-	137	137
Other operating expenses	(406)	(405)	(1,619)	(2,430)
Depreciation, amortization and impairment of non-current assets	-	-	(1,366)	(1,366)
Operating profit	**2,793**	**1,687**	**(2,848)**	**1,632**
Capital expenditures	636	252	538	1,426

Revenue by geographical area

	2013 HRK millions	2012 HRK millions Restated
Republic of Croatia	6,608	6,928
Rest of the World	434	627
	7,042	7,555

The majority of Group's assets are located in Croatia.
None of the Group's external customers represent a significant source of revenue.

4 Service expenses

	2013 HRK millions	2012 HRK millions
Domestic interconnection	411	442
International interconnection	253	334
Other services	225	266
	889	1,042

5 Depreciation, amortization and impairment of non-current assets

	2013 HRK millions	2012 HRK millions
Depreciation	901	912
Amortization	413	356
	1,314	1,268
Impairment loss	52	58
	1,366	1,326

Notes 10 and 11 disclose further details on amortization and depreciation expense and impairment loss.

6 Employee benefits expenses

	2013 HRK millions	2012 HRK millions
Gross salaries	857	849
Taxes, contribution and other payroll costs	207	231
Redundancy expenses (Note 21)	66	144
Long-term employee benefits (Note 20)	(16)	(16)
	1,114	1,208

7 Other expenses

	2013 HRK millions	2012 HRK millions
Maintenance services	279	265
Rent (Note 25)	183	185
Licence cost	177	165
Advertising	107	121
Selling commission	101	120
Contract workers	58	35
Postal expenses	49	69
Provision of trade receivables	44	68
Call centre and customer care support	43	50
Non-income taxes and contribution	41	45
Daily allowances and other costs of business trips	22	21
Education and consulting	20	18
Write down of inventories	17	21
Insurance	13	14
Loss on disposal of fixed assets	4	1
Other operating charges	108	104
	1,266	1,302

8 Income tax expense

a) Tax on profit

	2013 HRK millions	2012 HRK millions
Current tax expense	190	409
Deferred tax income	(2)	(13)
	188	396

b) Reconciliation of the taxation charge to the income tax rate

	2013 HRK millions	2012 HRK millions
Profit before taxes	1,629	2,092
Income tax at 20% (domestic rate)	326	418
Tax effect of:		
Reinvested profit not subject to tax	(144)	-
Income not subject to tax	(8)	(16)
Tax adjustment related to previous years	8	(11)
Expenses not deductible for tax purposes	4	2
Tax effects of tax loss carry forward	(2)	(1)
Other	4	4
	188	396
Effective tax rate	11.54%	18.93%

The Group utilized tax relief for 2013 based on reinvested profit, and consequently issued share capital will be increased by HRK 694 million in accordance with Management Board Decision. Part of HRK 5 million relates to reinvested profit of subsidiary Combis d.o.o..

Components and movements of deferred tax assets and liabilities are as follows:

Deferred tax assets and liabilities recognized in:	31 December 2013	Charged/ (credited) in 2013	Effect of changes in accounting policies	31 December 2012	Charged/ (credited) in 2012	31 December 2011
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Statement of comprehensive income						
Non-tax deductible value adjustments	22	(1)	-	23	1	22
Property, plant and equipment write down	17	1	-	16	7	9
Accrued interest on legal cases	4	(3)	-	7	1	6
Other	17	2	-	15	4	11
	60	(1)	-	61	13	48
Statement of other comprehensive income			-			
Actuarial gains and losses	-	(4)	-	4	0	4
Deferred tax asset	60	(5)	-	65	13	52
Statement of comprehensive income						
Past service costs	-	(3)	3	-	-	-
	-	(3)	3	-	-	-
Statement of other comprehensive income						
Actuarial gains and losses	2	2	-	-	-	-
Deferred tax liability	2	(1)	3	-	-	-

A deferred tax asset has been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted.

The deferred tax asset of the Group arises on the property, plant and equipment impairment as a result of the fact that HRK 395 million of the impairment reported in 2001 was not tax deductible in that year. Of this amount, HRK 369 million became tax deductible in the period from 2002 to 2013, and the remaining HRK 26 million will be tax deductible in future periods.

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2014 for the 2012 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until the absolute statute of limitation of 6 years expires.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable in the amount of HRK 2 million. The Group did not recognise deferred income tax assets of HRK 20 million in respect of losses amounting to HRK 110 million that can be carried forward against future taxable income.

Losses expires in:	HRK million
2014	45
2015	38
2016	27
	110

9 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares or share options.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2013	2012
Profit for the year attributable to ordinary equity holders of the Company in HRK millions	1,441	1,696
Weighted average number of ordinary shares for basic earnings per share	81,885,322	81,887,256
	HRK 17.60	HRK 20.71

10 Intangible assets

	Licences	Software	Goodwill	Assets under construction and other assets	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2012					
Cost	281	2,660	162	367	3,470
Accumulated amortization	(151)	(2,067)	-	(165)	(2,383)
Net book value	130	593	162	202	1,087
Year ended 31 December 2012					
Opening net book value	130	593	162	202	1,087
Additions	150	186	-	81	417
Transfers	-	39	-	(39)	-
Amortization charge	(12)	(264)	-	(80)	(356)
Impairment loss	-	(6)	-	-	(6)
Net book value	268	548	162	164	1,142
As at 31 December 2012					
Cost	432	2,767	162	366	3,727
Accumulated amortization	(164)	(2,219)	-	(202)	(2,585)
Net book value	268	548	162	164	1,142
Year ended 31 December 2013					
Opening net book value	268	548	162	164	1,142
Additions	149	219	-	272	640
Transfers	-	53	-	(53)	-
Amortization charge	(24)	(262)	-	(127)	(413)
Impairment loss	-	(5)	-	(6)	(11)
Net book value	**393**	**553**	**162**	**250**	**1,358**
As at 31 December 2013					
Cost	580	2,874	162	585	4,201
Accumulated amortization	(187)	(2,321)	-	(335)	(2,843)
Net book value	**393**	**553**	**162**	**250**	**1,358**

The intangible assets of the Group as at 31 December 2013 include four licences for use of the radio frequency spectrum (Notes 2.4. e) and 30 b)).

Assets under construction primarily relate to software and the various licences for the use of software.

Additions of intangible assets

Major additions in the reporting period relate to applicative, system and network technology software and user licences in the amount of HRK 209 million, capitalised costs of content in the amount of HRK 184 million and new licence for use of the radio frequency spectrum in 800 MHz frequency band (digital dividend) in the amount of HRK 149 million. Out of the total, HRK 43 million relates to capitalization of discounted amount of annual fees payments until expiration of the licence. This licence is amortized over a period of 11 years (starting from December 2013) according to licence conditions granted.

Impairment loss

During 2013, the Group recognized impairment loss of intangible assets of HRK 11 million (2012: HRK 6 million).

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. An operating segment-level summary of the goodwill allocation is presented below:

	31 December 2013	31 December 2012
	HRK millions	HRK millions
Residential	55	55
Business	107	107
	162	162

The key assumptions used for value-in-use calculations are as follows:

	Residential		Business	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Growth rate	2.0%	2.0%	2.0%	2.0%
Discount rate	9.6%	9.6%	9.6%	9.6%

The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions on which the determination of CGUs value in use is based reflect past experience and expectations of market development, in particular: development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and post-tax discount rate is applied to the cash flow projections.

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the cash-generating units to materially exceed its recoverable amount.

11 Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction and other assets	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2012					
Cost	2,152	11,428	1,122	248	14,950
Accumulated depreciation	(1,030)	(7,108)	(836)	(23)	(8,997)
Net book value	**1,122**	**4,320**	**286**	**225**	**5,953**
Year ended 31 December 2012					
Opening net book value	1,122	4,320	286	225	5,953
Additions	29	291	39	404	763
Transfers	7	98	14	(119)	-
Disposals	(16)	-	(2)	(1)	(19)
Depreciation charge	(104)	(709)	(99)	-	(912)
Impairment loss	-	(49)	-	(3)	(52)
Net book value	**1,038**	**3,951**	**238**	**506**	**5,733**
As at 31 December 2012					
Cost	2,160	11,420	1,139	509	15,228
Accumulated depreciation	(1,122)	(7,469)	(901)	(3)	(9,495)
Net book value	**1,038**	**3,951**	**238**	**506**	**5,733**
Year ended 31 December 2013					
Opening net book value	1,038	3,951	238	506	5,733
Additions	88	314	41	343	786
Transfers	82	288	40	(410)	-
Disposals	(2)	(3)	(2)	-	(7)
Depreciation charge	(95)	(712)	(94)	-	(901)
Impairment loss	(17)	(20)	-	(4)	(41)
Net book value	**1,094**	**3,818**	**223**	**435**	**5,570**
As at 31 December 2013					
Cost	2,310	11,612	1,007	439	15,368
Accumulated depreciation	(1,216)	(7,794)	(784)	(4)	(9,798)
Net book value	1,094	3,818	223	435	5,570

Included within assets under construction of the Group are major spare parts of HRK 17 million (31 December 2012: HRK 19 million), net of an impairment provision of HRK 2 million (31 December 2012: HRK 1 million).

Beginning in 2001, the Group has performed additional procedures which have provided support for the existence of legal title to land and buildings transferred from HPT s.p.o. under the Separation Act of 10 July 1998. The Group is still in the process of formally registering this legal title.

The Group does not have any material property, plant and equipment held for disposal, nor does it have any material idle property, plant and equipment.

Impairment loss

In 2013, the Group recognized an impairment loss of property, plant and equipment of HRK 41 million (2012: HRK 52 million) mostly due to transfer to the newer technology. The recoverable amount of that equipment is its estimated fair value less costs to sell, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom machinery, old tools, IT, office equipment and vehicles in the gross amount of HRK 626 million (2012: HRK 420 million).

Ownership over ducts

Although assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company, by virtue of the "Law on Separation of Croatian Post and Telecommunication" and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, part of the Group's infrastructure that is considered as a real estate, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) and the major portion of these assets are not registered in the land registry, which may be relevant to the issue of proving the ownership towards third parties. Intrusions in HT's ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb and City of Split present the majority of problems), may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for some ducts.

The Group formed the Registration And Contractual Relation Management Department that is responsible to assure that all network technology related assets are properly legalised, documented and that this documentation is available to all relevant departments and authorities. The overall process is slow and complex since the registration depends not only on HT but also on local and state authorities. Since the year 2006, the actions of HT have been concentrated on the conclusion of "right of servitude" contracts with local municipalities and "right of use" contracts with Croatian and County Roads.

In connection with the offer for sale of ordinary shares held by the Government of Republic of Croatia in 2007, the Government of Republic of Croatia, the Company and DT AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Inter alia, this provides the underlying principles under which right of way charges and shared usage issues will be based.

The Government of Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible.

In accordance with Ordinance on Manner and Conditions for Access and Joint Use of Electronic Communications Infrastructure and Related Equipment (Official Gazette No. 154/08 effective as at 6 January 2009) and Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 31/09 effective as of 19 March 2009 and Official Gazette No. 152/11 effective as of 4 January 2012), the Croatian Post and Electronic Communications Agency ("HAKOM") issues certificates for the rights of way to HT. HAKOM granted HT certificates for the right of way for approximately 50% of ducts in the City of Zagreb, based on which HT pays certain fee. The Group believes that the issued certificates for the rights of way might help HT in the lawsuit filed by Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") (Note 26 b)). Due to existing of those certificates, ZHZDG corrected their lawsuit in its statement submitted to the Court and admitted ownership rights to HT for DTI where the certificates were obtained.

The legalization process is to be speed up due to Law on Electronic Communications which obliges local municipality and other owners of the land where the electronic communication infrastructure were constructed to tolerate "right of way" which HT owns based on the Law, except if owner of the land and HT do not agree any other right.

The Group assessed and declared the existence of the risks thereon, including obtaining legal opinions with respect to certain of the issues involved. However, due to the fact that these issues are very complex, so far the Group has not yet been able to determine possible outcome and whether it will result in any impairment of the DTI assets concerned due to any inability to prove title, or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect. Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2013 is HRK 838 million (31 December 2012: HRK 855 million).

12 Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises:

	31 December 2013 HRK millions	31 December 2012 HRK millions
Joint venture HT d.d. Mostar:		
As at 1 January	396	394
Share of profits	21	27
Dividends paid	(21)	(25)
As at 31 December	396	396
Associate HP d.o.o. Mostar:		
As at 1 January	2	2
Share of loss	(1)	(2)
Write-up of impairment loss	1	2
As at 31 December	2	2
	398	398

a) Investment in joint venture:
The Group has an ownership interest of 39.1% in its joint venture HT d.d. Mostar which is incorporated in the Republic of Bosnia and Herzegovina. The principal activity of this company is provision of telecommunication services.

All decisions made by the Management Board and all decisions made by the Supervisory Board have to be approved by both of the majority shareholders. Therefore, the investment is classified as a jointly controlled entity. The rest of the company is mainly owned by Federation of Bosnia and Herzegovina (50.10%).

The Group's share in HT d.d. Mostar profit for the year ended 31 December 2013 is recognized in the statement of comprehensive income in the amount of HRK 21 million (2012: HRK 27 million).
In 2013, HT received a dividend of HRK 21 million from HT d.d. Mostar (2012: HRK 25 million).

b) Investment in associate:
The Group has an ownership interest of 30.29% in its associate HP d.o.o. Mostar which is incorporated in the Republic of Bosnia and Herzegovina. The principal activity of the associate is provision of postal services.

Summarisation of the Group's share in aggregated financial information of investments accounted for using the equity method is as follows:

Assets and liabilities in:	31 December 2013 HRK millions	31 December 2012 HRK millions
Joint venture HT d.d. Mostar:		
Non-current assets	588	572
Current assets	109	126
Non-current liabilities	(36)	(43)
Current liabilities	(144)	(143)
Net assets	517	512
Associate HP d.o.o. Mostar:		
Non-current assets	17	18
Current assets	15	14
Non-current liabilities	(1)	(0)
Current liabilities	(4)	(4)
Net assets	27	28
Revenue and profit/(loss) in:	2013	2012
	HRK millions	HRK millions
Joint venture HT d.d. Mostar:		
Revenue	377	394
Profit	21	27
Associate HP d.o.o. Mostar:		
Revenue	29	27
Loss	(1)	(2)

13 Available-for-sale financial assets

Available-for-sale financial assets, at fair value, include the following:

Issuer	Currency	Maturity	31 December 2013 HRK millions	31 December 2012 HRK millions
Domestic bond:				
Government Republic of Croatia	HRK	8 February 2017	35	35
Foreign bonds:				
Government of France	EUR	25 September 2014	153	153
Government of Germany	EUR	12 September 2014	153	151
Government of Germany	EUR	13 July 2014	76	75
Government of Netherland	EUR	15 April 2015	77	77
Government of Netherland	EUR	15 April 2016	76	-
Government of France	EUR	12 January 2013	-	75
Other			10	19
			580	585
Non-current			196	499
Current			384	86
			580	585

Interest rate on domestic bond is 4.75%. Interest rates on foreign bonds are up to 0.75%.

The estimated fair value of investments in bonds at 31 December 2013 is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belong to the first financial instruments hierarchy category. There were no changes among financial instruments hierarchy categories in 2013.

14 Loans to banks

Issuer	Currency	Maturity	31 December 2013 HRK millions	31 December 2012 HRK millions
Reverse REPO agreements (Note 28 g)):				
Erste Steiermärkische Bank d.d.	HRK	5 February 2014	149	-
Erste Steiermärkische Bank d.d.	HRK	22 January 2014	95	-
Raiffeisen Bank Austria d.d.	HRK	28 January 2014	73	-
Erste Steiermärkische Bank d.d.	HRK	23 January 2013	-	86
Erste Steiermärkische Bank d.d.	HRK	27 February 2013	-	79
Privredna banka Zagreb d.d.	HRK	29 March 2013	-	74
			317	239

Interest rates at 31 December 2013 on reverse REPO agreements range up to 1.50%.

15 Inventories

	31 December 2013	31 December 2012
	HRK millions	HRK millions
Merchandise	62	77
Inventories and spare parts	53	78
	115	155

16 Trade and other receivables

	31 December 2013	31 December 2012
	HRK millions	HRK millions
Trade receivables	107	-
Other receivables	19	21
Non-current	126	21
Trade receivables	1,215	1,146
Other receivables	36	69
Current	1,251	1,215
	1,377	1,236

During 2013, the Group entered into several prebankruptcy settlements with its debtors which stipulates that part of reported current trade receivables is converted to non-current receivables (HRK 54 million) with maturities up to 5 years and part of receivables will be subsequently converted to shares in some of entities (HRK 53 million) when procedures of court registration are finalized.

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor	Past due but not impaired				
		impaired	< 30 days	31-60 days	61-90 days	91-120 days	>120 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
31 December 2013	1,215	891	171	44	31	25	53
31 December 2012	1,146	823	176	73	30	29	15

As at 31 December 2013, trade receivables with a nominal value of HRK 1,100 million (31 December 2012: HRK 1,092 million) were deemed impaired and fully provided for.

Movements in the provision for impairment of receivables were as follows:

	2013	2012
	HRK millions	HRK millions
As at 1 January	1,092	1,054
Charge for the year	133	151
Unused amounts reversed	(89)	(83)
Receivables written-off	(36)	(30)
As at 31 December	1,100	1,092

17 Cash and cash equivalents and time deposits

a) Cash and cash equivalents
Cash and cash equivalents comprise the following amounts:

	31 December 2013 HRK millions	31 December 2012 HRK millions
Cash on hand and balances with banks	1,261	741
Time deposits with maturity less than 3 months	778	1,857
Reverse REPO agreements affairs with maturity less than 3 months	-	548
	2,039	3,146

b) Time deposits with maturities more than 3 months

	31 December 2013 HRK millions	31 December 2012 HRK millions
Foreign bank	634	259
Domestic banks	17	2
	651	261

c) Currency breakdown of cash and cash equivalents and time deposits:

	31 December 2013 HRK millions	31 December 2012 HRK millions
HRK	1,920	2,659
EUR	679	723
USD	86	25
BAM	5	-
	2,690	3,407

18 Trade payables and other liabilities

	31 December 2013 HRK millions	31 December 2012 HRK millions
Content contracts	82	28
Licence for radio frequency spectrum	34	-
Other	22	22
Non-current	138	50
Trade payables	1,464	1,428
VAT and other taxes payable	99	38
Payroll and payroll taxes	77	81
Other	26	30
Current	1,666	1,577
	1,804	1,627

19 Deferred income

	31 December 2013 HRK millions	31 December 2012 HRK millions
Connection fee	4	2
Non-current	4	2
Prepaid vouchers	68	74
Customer loyalty programme	27	34
Connection fee	1	2
Other	24	12
Current	120	122
	124	124

20 Employee benefit obligations

Long-term employee benefits include retirement and jubilee (length of service) payments. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and are determined in the amount of six average monthly salaries paid to employees in the preceding month. Jubilee benefits are paid in the fixed amount depending on the number of years of service in the Group.

Long-term employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognized as other comprehensive income in the period in which they occur.

Long-term employee benefits include a compensation for the employees detailed described in Note 31.

The movement in the liability recognized in the statement of financial position was as follows:

	2013 HRK millions	2012 HRK millions
As at 1 January	140	158
Effect of change in accounting policy (Note 2.2.)	(17)	-
LTIP – Variable II (Notes 6 and 31)	2	1
Service costs (Note 6)	10	11
Interest costs	7	8
Past service costs (Note 6)	(1)	-
Amortization losses/(gains) (Note 6)	(27)	(1)
Benefit paid	(12)	(13)
Curtailments (Note 6)	-	(27)
Actuarial losses/(gains)	(32)	3
As at 31 December	**70**	**140**
Retirement	14	61
Jubilee	52	77
LTIP – Variable II	4	2
	70	140

The principal actuarial assumptions used to determine retirement benefit obligations as at 31 December were as follows:

	2013 in %	2012 in %
Discount rate (annually)	6.5	6.5
Wage and salary increases (annually)	2.0	2.0

21 Provisions for other liabilities and charges

	Legal claims	Asset retirement obligation	Redundancy	Variable salary	Unused vacation	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2013	66	21	146	69	15	317
Additions	12	1	66	40	11	130
Utilisation	(15)	(1)	(212)	(69)	(13)	(310)
Reversals	(24)	-	-	-	-	(24)
Interest costs	-	2	-	-	-	2
As at 31 December 2013	39	23	-	40	13	115
Non-current	39	23	-	-	-	62
Current	-	-	-	40	13	53
	39	23	-	40	13	115

a) Legal claims
As at 31 December 2013, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

b) Asset retirement obligation
Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year.

c) Redundancy
Redundancy expenses and provisions include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2013 due to business reasons.

22 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2013	31 December 2012
	HRK millions	HRK millions
81,888,535 ordinary shares of HRK 100 each	8,189	8,189

The number of shares in issue remained unchanged between 1 January 1999 and 31 December 2013.

In 2013, the Group acquired 2,000 of its own shares and are held as 'treasury shares' (2012: 1,931). The Group holds total 3,931 of its own shares as at 31 December 2013.

23 Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the issued capital they can also be used to increase the issued capital of the Group. These reserves are not distributable.

24 Retained earnings

In 2013, the Group paid a dividend of HRK 20.51 per share (2012: HRK 22.14) for a total of HRK 1,679 million (2012: HRK 1,813 million).

25 Commitments

a) Operating lease commitments
The Group has operating lease commitments in respect of buildings, land, equipment and cars.
Operating lease charges:

	2013	2012
	HRK millions	HRK millions
Current year expense (Note 7)	183	185

Future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2013	31 December 2012
	HRK millions	HRK millions
Within one year	168	174
Between 1 and 5 years	542	573
Greater than 5 years	404	428
	1,114	1,175

The contracts relate primarily to property leases and car leases.

b) Capital commitments

The Group was committed under contractual agreements to capital expenditure as follows:

	31 December 2013	31 December 2012
	HRK millions	HRK millions
Intangible assets	92	63
Property, plant and equipment	610	869
	702	932

26 Contingencies

At the time of preparation of these consolidated financial statements, there are a number of claims outstanding against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which a provision was established (Note 21).

a) Competition / Regulatory matters

The Group vigorously defends all of its competition/regulatory situations, including those disclosed below. There is no history of significant settlements in Croatia under either the Competition Law or imposed by Misdemeanour Courts. Due to the lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the possible outcome of these cases. However management believes that any settlement will be significantly less than the maximum penalties outlined below.

Access to 064/069 numbers case

Pursuant to Metronet notification from 2010, HAKOM initiated supervision and in April 2010 issued a decision that HT shouldn't have conditioned network access with the changed numbering of VAS services with the contract annex, but should have provided the service directly instead. Pursuant to this decision, HT, in June 2012, received a Misdemeanour Indictment based on HAKOM's decision from 2010 proposing 1% fine on the T-Com business annual gross revenue from the year 2008. On the basis of the results for 2008, 1% of the gross revenue would amount to HRK 48 million. HT submitted written defence and proposed suspension of the procedure until the Constitutional Court of RoC decides on HT's Request on conformity assessment of the Law on electronic communications. The last oral hearing was held in April 2013. The Court concluded the trial and HT is waiting now for a Court to render a judgement.

Competition Agency proceedings regarding retransmission of football games

Competition Authority initiated, ex officio, by its decision dated 3 January 2013, formal proceedings against HT relating to abuse of dominant position determining retail market of retransmission of pay TV channels as relevant market due to the fact that ArenaSport channels and premium sport content (such as Croatian national league – MAXtv Prva liga, UEFA Champions League and UEFA Europe League) are available only through MAXtv service.

In June 2013, HT received a Statement of Objections in which it is stated that Competition Agency concluded that, so far, determined facts would imply that HT abused its dominant position on the retail market of the retransmission of pay TV channels by restricting the market to the detriment of consumers, which would amount to the breach of Article 13 item 2 of the Competition Act. HT submitted in writing all objections to the Statement.

The pecuniary fine is limited to up to 10% of yearly turnover of the Company in the last year for which financial reports have been concluded. Also, according to the Agency´s practice, the fine is usually connected with the turnover acquired from the services provided on the relevant market. In this case, it would be the turnover realized from provision of a pay-tv service (MAXtv). On the basis of the results for 2012, 10% of the gross revenue of MAXtv services would amount to HRK 68 million.

b) Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb

With respect to the ducts issue mentioned under Property, plant and equipment (Note 11), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range up to 390 million plus interest.

The suit is based on the legal acts adopted by the Administration and Assembly of the City of Zagreb in the years 2006 and 2007 by which management of DTI has been declared as communal activity executed by the City of Zagreb.

On 10 December 2012, the Company received the partial interlocutory judgement and partial judgement by which it is determined that HT is obliged to pay to ZHZDG the fee for usage of the DTI system, and that until the legal validity of this partial interlocutory judgment, litigation will be stopped regarding the amount of the claim. Furthermore, the claim in the part concerning the establishment of the ownership of the City of Zagreb over DTI and other communal infrastructure for laying telecommunication installations on the area of the City of Zagreb for the purpose of communication-information systems and services is rejected. Decision on the litigation costs is left for the later judgment. On 21 December 2012, the Company submitted the appeal against this judgment, which is still pending.

Since the plaintiff was rejected with the main part of his claim, and since the interlocutory partial judgement defines that the amount of the claim shall be discussed only after legal validity of the judgement, management concluded that no provision is required to be recognised in the financial statements for this case.

27 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DT AG. 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 during 2013 and 2012. Further, DT AG provided technical assistance to the Group of HRK 19 million (2012: HRK 13 million).

The main transactions with related parties during 2013 and 2012 were as follows:

		Revenue		Expenses
	2013	2012	2013	2012
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Immediate parent				
Deutsche Telekom AG, Germany	30	30	70	59
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	23	32	42	53
Subsidiaries of immediate parent				
Telekom Deutschland GmbH, Germany	9	19	4	8
T-Mobile Austria GmbH, Austria	3	5	1	3
T-Systems International GmbH, Germany	3	3	9	6
Others	19	22	11	8
	87	111	137	137

The statement of financial position includes the following balances resulting from transactions with related parties:

	Receivables		Payables	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Immediate parent				
Deutsche Telekom AG, Germany	3	4	149	48
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	-	-	9	3
Subsidiaries of immediate parent				
Telekom Deutschland GmbH, Germany	-	-	45	80
T-Mobile Austria GmbH, Austria	-	-	4	18
T-Mobile Czech a.s., Czech Republic	-	-	6	16
T-Systems International GmbH, Germany	-	-	6	2
Others	6	3	22	68
	9	7	241	235

Compensation of the Supervisory Board

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

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

In 2013, the Group paid a total amount of HRK 0.7 million (2012: HRK 0.7 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 2013, the total compensation paid to key management personnel of the Group amounted to HRK 45 million (2012: HRK 45 million). 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.
Compensation paid to key management personnel includes:

	2013	2012
	HRK millions	HRK millions
Short-term benefits	45	42
Share-based payments	-	3
	45	45

28 Financial risk management objectives and policies

The Group is exposed to international service-based markets. As a result, the Group can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 16) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2013, the Group had business transactions with fifteen banks (2012: fourteen banks). The Group held cash and deposits in six banks almost exclusively. For five domestic banks with foreign ownership, the Group received guarantees for deposits given from parent banks which have a minimum rating of BBB+ or guarantees in form of low-risk government securities. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership at the domestic and foreign markets and on contacts with the banks on a daily basis.

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	31 December 2013	31 December 2012
	HRK millions	HRK millions
Trade receivables for rendered telecom services to domestic customers	768	726
Trade receivables for rendered telecom services to foreign customers	28	34
Other trade receivables	95	63
	891	823

b) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.
Any excess cash is invested mostly in available-for-sale financial assets.

	Trade and other payables			Other non-current liabilities			
all amounts in HRK millions	Less than 3 months	3 to 12 months	Total	1 to 3 years	3 to 5 years	> 5 years	Total
Year ended 31 December 2013	1,573	93	1,666	99	22	17	138
Year ended 31 December 2012	1,526	51	1,577	32	6	12	50

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's available-for-sale financial assets, cash, cash equivalents and time deposits.
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit post tax (through the impact on floating rate investments).

	Increase/decrease in basis points	Effect on Profit post tax HRK millions
Year ended 31 December 2013		
HRK	+100	9
	-100	(9)
EUR	+100	9
	-100	(9)
Year ended 31 December 2012		
HRK	+100	13
	-100	(13)
EUR	+100	9
	-100	(9)

d) Foreign currency risk

The Company's functional currency is the Croatian Kuna. Certain assets and liabilities are denominated in foreign currencies which are translated at the valid middle exchange rate of the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, available-for-sale financial assets and cash equivalents are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase/ decrease in EUR rate	Effect on profit post tax HRK millions
Year ended 31 December 2013	+3%	26
	-3%	(26)
Year ended 31 December 2012	+3%	27
	-3%	(27)

e) Fair value estimation

The fair value of securities included in available-for-sale financial assets is estimated by reference to their quoted market price at the statement of financial position date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, non-current receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure that it supports its business and maximise shareholder value. The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves and retained earnings and totals HRK 10,700 million as at 31 December 2013 (31 December 2012: HRK 10,899 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012 (Notes 22 and 24).

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

	31 December 2013 HRK millions	31 December 2012 HRK millions
Foreign bonds:		
Government of Germany	251	-
Government of Austria	-	581
Government of France	-	75
Foreign treasury bills:		
Government of France	76	-
Government of Germany	-	150
	327	806

All above stated values are fair market values. None of accepted collaterals is currently sold nor repledged. There are no specific terms and conditions related to the use of collaterals.

29 Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

	Carrying amount		Fair value	
	31 December 2013 HRK millions	31 December 2012 HRK millions	31 December 2013 HRK millions	31 December 2012 HRK millions
Financial assets:				
Cash and cash equivalents	2,039	3,146	2,039	3,146
Time deposits	651	261	651	261
Available-for-sale assets, non-current	196	499	196	499
Available-for-sale assets, current	384	86	384	86
Loans to banks	317	239	317	239
Financial liabilities:				
Interest-bearing loans	16	17	16	17

Market values have been used to determine the fair value of listed available-for-sale financial assets. The fair value of loans has been calculated by discounting the expected future cash flows at prevailing interest rates.

30 Authorization for Services and Applicable Fees

The Group is party to the following Authorization for Services, none of which are within the scope of IFRIC 12:

a) Service authorization for the performance of electronic communications services in a fixed and mobile network

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, three Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12 and 80/13. Pursuant to Article 32 of the Law on Electronic Communications, the Company is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 15 November 2010:

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,
- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- value added services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,
- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers of publicly available telephone services in the Republic of Croatia, and
- other services.

In accordance with HAKOM's decision of 28 November 2005, the Company was designated as the Universal services provider for a period of five years i.e. till 29 November 2010. Due to expiration of the 5-year period, on 27 October 2010, HAKOM adopted a new decision thereby designating the Company as the operator of the following universal services in the territory of the Republic of Croatia for the next 5-year period starting from 29 November 2010:

- access to the public telephone network and publicly available telephone services at a fixed location, allowing end-users to make and receive local, national and international telephone calls, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access, taking into account prevailing technologies used by the majority of subscribers and technological feasibility,
- access for end-users, including users of public pay telephones, to a telephone directory enquiry service,
- setting up of public pay telephones on public places accessible at any time, in accordance with the reasonable needs of end-users

in terms of the geographical coverage, the quality of services, the number of public pay telephones and the accessibility of such telephones for disabled persons,

- special measures for disabled persons, including access to emergency services, telephone directory enquiry services and directories, equivalent to that enjoyed by other end-users, and
- special pricing systems adjusted to the needs of the socially disadvantaged groups of end-users.

Following the later decision of HAKOM, the Company is no longer designated as universal service operator for service access for end-users to at least one comprehensive directory of all subscribers of publicly available telephone services, however, shall continue to provide the service on commercial basis.

b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Company the following licenses for use of the radio frequency spectrum for public mobile electronic communications networks:

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024, and
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024.

HAKOM also issued to the Company licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2010 until 11 August 2015.

c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Company is obliged to pay the fees for the use of addresses and numbers, radio frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the maritime affairs, transport and infrastructure The said regulations prescribe the calculation and the amount of fees. These fees are paid for the current year or one year in advance (in case of fees for usage of radio frequency spectrum). In 2013, the Company paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the maritime affairs, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10 and 92/12) and
- the fees for use of addresses, numbers and radio frequency spectrum and for the performance of other tasks of HAKOM. Pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 138/12).

d) Audiovisual and electronic media services

Pursuant amendment of the Law on audiovisual activities, which entered into the force in July 2011, the Company is obliged to pay the fee in the amount of 2% of the total annual gross income generated from the performing of audiovisual activities on demand for the purpose of the implementation of the National Programme.

Also, the Company (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme. Pursuant to the Law on Electronic Media, which entered into force on 29 December 2009, the Company is obliged to pay upon the request the fee of 0.5% of the annual gross revenues realized from the provision of audiovisual media services and the electronic publication services.

e) Electronic communications infrastructure and associated facilities

The Company, as the infrastructure operator, is obligated to pay fees for the right of way in accordance with the Law on Electronic Communications. The fees for the right of way are defined by the Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 152/11) that was adopted by HAKOM in December 2011 and became effective as of 4 January 2012. The fee is calculated according to the area of land used for the installation of electronic communications infrastructure and associated facilities.

31 Share-based and non share-based payment transactions

Various mid-term (Transitional HT MTIP 2011) and long-term incentive plans (LTIPs – HT Variable II 2011, HT Variable II 2012 and HT Variable II 2013) exist at Group level to ensure competitive total compensation for members of the Management Board, senior executives and other beneficiaries. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

Transitional HT MTIP 2011 is set up as a cash-based plan linked to achievement of two equally weighted, share-based performance parameters, related to the value of HT share – one absolute and one relative. The first target is based on the performance of the share price by a certain percentage and the second is related to the share price development compared to the composite return index. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50% of the amount is paid out, and if neither performance target is achieved, no payment is made. MTIP targets cannot be changed during the MTIP duration. Duration of the plan is three years effective from 1 January 2011 to 31 December 2013. Upon expiry of the term of the plan, the Supervisory Board shall determine whether each of the targets has been achieved. Based on the findings of the Supervisory Board, the Management Board shall determine and announce the level of target achievement.

The incentives themselves consist of 20% or 30% of the participants' individual annual salary as contracted on the beginning of the plan, depending on the management level of the participant and according to the Supervisory Board decision. Participant's individual annual salary is defined as the annual amount of total fixed salary and the amount of variable salary in case of a 100% target achievement.

In 2013, there was no reward payment to participants of HT MTIP 2010, which ended on 31 December 2012. Based on decision of the Supervisory Board it was established that none of HT MTIP 2010 target out of two has been achieved.

Compensation model for International Business Leaders (BLT's) was introduced in 2011. It consists of Variable I (Matching Shares Plan - MSP) and Variable II.

LTIPs – HT Variable II 2011, HT Variable II 2012 and HT Variable II 2013 are cash-based plans with four equally weighted performance parameters that cannot be changed during plan duration. Two targets are financial KPIs, adjusted Earnings Per Share (EPS) and adjusted operating Return On Capital Employed (ROCE), third and forth targets are customer and employee satisfaction. Duration of the plan is four years effective from 1 January every year.

The Variable II amount awarded to International Business Leaders (BLT's) is fixed sum specified in the individual employment contract, while to other participants rewarded amount is 30% or 20% of the participants' individual annual salary as contracted on the beginning of the plan, depending on management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual total fixed salary and the annual variable salary in case of a 100% target achievement.

In contrast to the former MTIP structure, Variable II offers the option of exceeding the amounts earmarked for award, limited to 150% of the award volume per parameter. The parameters are independent of each other hence, each parameter is assessed separately. Both potential excesses and shortfalls in relation to targets are accounted for on a graded basis per target parameter (departure from the principle of "all or nothing").

The MSP is program under which the participant can receive HT shares on expiry of a four-year period. The participant is obliged to invest an amount from 10% to a maximum 33.33% of the paid out gross annual variable salary to HT shares. The participant is granted one additional HT share for each share, under condition that he/she held them continuously for a period of at least four years from the date of purchase (vesting period). Employee services are recognized as expenses on a pro rata basis over the vesting period. The Group is measuring value of employee services, indirectly, by reference to the fair value of the equity instruments granted. The fair value of the equity instruments granted is measured at grant date by using observable market price.

All gains and expenses resulting from changes of the related provisions for all MTIP and LTIP plans recognized for employee services received during the year are shown in the following table:

	2013 HRK millions	2012 HRK millions
Expenses for providing for payments	(2)	(1)
Gains arising from cancellation of provision	-	3
	(2)	2

32 Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 4.7 million in 2013 (2012: HRK 5 million). Services rendered in 2013 and 2012 mainly relate to audits and reviews of the financial statements, audit of financial statements prepared for regulatory purposes and upgrade of Cost and Profitability Calculation tool.

33 Events after reporting period

No events or transactions have occurred since 31 December 2013 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Group's affairs to require disclosure in the financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT

pwc

Independent Auditor's Report on the Annual Report

To the Shareholders and Board of Directors of Hrvatski Telekom d.d.

We have audited the consolidated financial statements of Hrvatski Telekom d.d. ("the Company") and its subsidiaries ("the Group") as of and for the year ended 31 December 2013 disclosed in the Annual report on pages 70 to 105 and issued the opinion dated 12 February 2014 disclosed on page 69.

Management's Responsibility for the Annual Report

Management of the Company is responsible for the preparation, content and accuracy of the Annual Report of the Group for the year ended 31 December 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on the consistency of the Annual Report with the consolidated financial statements referred to above, based on our verification procedures.

We conducted our verification procedures in accordance with the International Standards on Auditing. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the information included in the Annual Report which describes matters that are also presented in the consolidated financial statements ("other information") is, in all material respects, consistent with the consolidated financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the Annual Report of the Group for the year ended 31 December 2013 is consistent, in all material respects, with the consolidated financial statements.

PricewaterhouseCoopers d.o.o.
Zagreb, 18 March 2014

John Mathias Gasparac Member of the Management Board	Hrvoje Zgombić President of the Management Board	Tamara Maćašović Certified Auditor

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

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This document contains certain forward looking statements with respect to financial conditions, results of operations and business of the Group. These forward-looking statements represent the Company's current views, expectations or beliefs concerning future events. Such statements are subject to risk and uncertainties, most of which are difficult to predict and are generally beyond Company's control. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these Statements prove incorrect, Company's /Group's actual results may be materially different from those expressed or implied by such statements. Company can offer no assurance that its expectations or targets will be achieved.

In addition, some key performance indicators utilized by the Company (non-IFRS measures, such as EBITDA) serve as additional indicators of the Group's operating performance and may be calculated differently by other companies operating in the sector. However such measures are not replacement for measures defined and required under IFRS. Therefore the non-IFRS measures and key performance indicators used in this document may not be directly comparable to those of the Group's competitors

Hrvatski Telekom d.d.
Roberta Frangeša Mihanovića 9
10000 Zagreb
Croatia
www.t.ht.hr