T · · Hrvatski Telekom ·

LIFE IS FOR SHARING.

Zagreb – 30 April 2014

T-Hrvatski Telekom

Results for the three months ended 31 March 2014

Leading position and good results in the face of adverse economic trends and regulatory changes

- *Revenue down 6.2%; EBITDA before exceptional items down 5.8% with stable margin at 39.2%*
- *Company's internal transformation project finalised, new organisational structure as of 1 May*
- *Government announcement on exponential increase in annual frequency fees to significantly impact HT's business operations*

T-Hrvatski Telekom (Reuters: THTC.L, HT.ZA; Bloomberg: THTC LI, HTRA CZ), Croatia's leading telecommunications provider, announces its unaudited results for the three months ended 31 March 2014.

As Croatia's leading telecommunications provider, at the end of the first quarter of 2014, T-HT had over 1.2 million fixed line customers, almost 2.3 million mobile subscribers, 623,951 broadband retail access lines, and 392,201 TV customers.

In the first quarter of 2014, T-HT generated HRK 1.6 billion revenue, which was 6.2% below the same period the previous year, as a result of continuous economic crisis and regulatory alignment with the EU, primarily in the area of roaming and call termination.

The voice segment recorded an 18.7% fall, which was partially moderated by 3.9% growth of non voice revenue and 20.8% growth in ICT revenue. In the non voice segment, growth of mobile broadband revenue and TV service revenue continued. The ICT segment was marked by further development of cloud computing and projects related to IT infrastructure and professional solutions delivery.

T-HT maintained a stable EBITDA margin before exceptional items of 39.2%, which was 0.1 percentage points above the first quarter of the previous year. Net profit amounted to HRK 199 million, which was 16.5% below the comparable quarter of the previous year. Capital expenditure amounted to HRK 188 million and was directed towards further development of network infrastructure, increase of broadband capacities and availability, and IP transformation.

Commenting on the results for the first three months of 2014, Davor Tomašković, President of the Management Board and CEO of Hrvatski Telekom, said:

"T-HT holds a firm leading position on the Croatian telecommunications market and the results of the first quarter are in line with our business plans. The economic crisis and regulatory changes continue to have a strong impact on the Company's performance.

"With a view to further strengthening its leading position and achieving good results, at the beginning of 2014 T-HT started its internal transformation in order to make the organisation even more flexible and efficient, as well as fully focused on its customers. We have significantly simplified the organisational structure and redesigned the parts of the organisation where customer-related processes are managed.

“The Management Board of HT will have a new Member in charge of customer experience, the Chief Customer Officer, with the aim of raising customer focus to the highest level within the organisation. This new organisational structure will come into force on 1 May.

“Along with the internal transformation, this year we also plan, as previously announced, to initiate more significant investments in infrastructure development and service quality improvement, as well as the realisation of potential opportunities for regional business expansion. On 29 April, the General Assembly of the Company supported our proposal for the distribution of the net profit generated in 2013, the aim of which is to increase investments in the development of the Company.

“However, our plans to intensify investments are significantly affected by the Government’s announcement of an exponential increase in the annual frequency fees. This will have a strong impact not only on our business operations, but also on the telecommunications sector as a whole.

“The increase in the annual cost for frequencies is of such significance that all our previous plans for investments and development of new networks, services, and technologies would have to be significantly reduced.

“In order to mitigate the negative impact of such a considerable cost increase and ensure business sustainability, jobs and investments in development, Hrvatski Telekom has no other option but to include such an increase into prices for mobile services.”

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

The conference call dial in details are as follows:

International Dial In	+44 (0) 1452 541 003
UK Free Call Dial In (from landlines only)	0800 694 5707
Conference ID	29086852

A replay of the call will be available until Wednesday, 7 May 2014 using the following details:

International Dial In	+44 (0) 1452 550 000
UK Free Call Dial In (from landlines only)	0800 953 1533
Replay Access Code	29086852

A presentation covering results for the first three months of 2014 can be downloaded from the T-HT web site (www.t.ht.hr/eng/investors/).

1. Business and financial review

1.1 Introduction

T-Hrvatski Telekom is Croatia's largest telecommunications provider and the market leader in all segments in which it operates. At 31 March 2014, the Group served 1.2 million fixed-line customers, 2.3 million mobile subscribers, 623,951 broadband retail access lines and provided TV services to 392,201 customers.

1.2 Market overview

Challenging economic trends, the continuation of convergent offers and mobile flat rate tariff offers had a major impact on market in Q1 2014.

Mobile broadband recorded growth in Q1 2014 as a result of increasing smartphone and tablet penetration, more favourable flat tariff offers and increasing usage. But stronger growth in data revenue did not offset the decline in voice and SMS revenues.

The fixed broadband market and pay TV market continued to grow, while further consolidation in the fixed market is intensifying the increasingly competitive environment to an even greater degree.

Trends in the Croatian IT market in 2014 are dependent on economic pressures, financing of the state budget and new investments in business. Particular segments – such as smartphones, tablets, cloud services and data center equipment - have been showing growth.

Fixed-line market

Fixed telephony remains highly competitive in Croatia, with 13 operators active in the market[1].
The decline in the fixed-line market has resulted from the ongoing trend of fixed to mobile substitution, in line with the global telecoms industry. The number of fixed-line minutes of use (MOU) decreased by 15.8% in 2013 compared with 2012[2].
T-HT successfully maintained its leading position in the fixed line market, reflecting the Group's continuing dedication to high-quality services and improved offers.

Mobile telecommunications

Mobile penetration is estimated to reach 114.5% and the Company's share of total mobile customers is estimated at 46.6% at the end of March 2014.

Growth in mobile usage has continued. Total Croatian mobile market minutes of use (MOU) increased by 21.1% and the number of SMSs sent increased by 7.5%[2] in 2013 compared with 2012. Mobile data usage is growing as a result of more favourable commercial offers from all three operators alongside increasing smartphone and tablet offers.
Through a range of brands, the Group has maintained its leading market position in a saturated mobile market, served by three operators.

Internet

The Croatian fixed broadband market grew by 3.8% in 2013, reaching 923,885[1] fixed broadband connections. DSL is still the dominant broadband technology. At the end of Q1 2014, T-HT Group had 623,951 broadband retail access lines.

The Croatian broadband market still represents a growth opportunity for T-HT with an estimated 60% of Croatian households connected to fixed broadband network.

The Croatian pay TV market grew by 13.8% in 2013 reaching 703,857 customers [2]. This positive trend is expected to continue in 2014.

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

Wholesale
Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remained high in Q1 2014. The number of broadband wholesale customers (BSA and Naked BSA) reached 54,257 at the end of Q1 2014. In addition, significant demand for Unbundled Local Loop (ULL) continued, and the number of customers increased to 173,913 in the same period. Number of Wholesale Rental Lines (WLR) increased to 120,112. In January 2014, wholesale prices were amended for the following regulated services: call origination, fixed and mobile call termination.

1.3 Economic background[1]

The Croatian economy, measured by GDP growth, recorded a contraction of 1.0% in 2013. The rising unemployment rate had a negative impact on personal consumption, which also declined by 1.0% in 2013.

Gradual economic recovery may be driven by a higher rate of exports and significant foreign direct investments, but there is a high degree of uncertainty over whether that can be achieved in 2014.

Unemployment in Croatia continued to grow in Q1 2014 for the sixth consecutive year reaching an unemployment rate of 22.3% in March 2014 (0.7% higher than in March 2013). Disposable income also declined further to average HRK 5,427 in February 2014.

The inflation rate, measured by Consumer Price Index (CPI), decreased by 0.4% in March 2014 compared with March 2013.

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[1] Source: Croatian Post and Electronic Communications Agency
[2] Source: Central Bureau of Statistics

1.4 Regulatory environment

At the EU level, developments indicate a possible lowering of roaming charges and strengthening of the net neutrality principle. In April 2014, the European Parliament in the first reading adopted the „Telecom Single Market Regulation" proposal aiming, amongst other objectives, to reduce roaming prices to the level of national prices from 15 December, 2015, and to foster non-discrimination with regard to Internet traffic. The final decision will need to be agreed between the European Parliament, Council of Ministers and European Commission and is expected by the end of 2014.

Until 28 April, 2014, HAKOM is conducting public consultations on a new margin squeeze test methodology for checking that there is adequate margin between HT's wholesale prices and HT and Iskon's retail prices in the following markets:

- retail access to the public communications network at a fixed location
- publicly available local and/or national telephone service provided at a fixed location for residential customers
- publicly available local and/or national telephone service provided at a fixed location for non-residential customers
- retail broadband Internet access (regulated as of 23 March 2012)
- retail market for transmission of TV programs with remuneration - IPTV market (regulated as of 23 March 2012).

Comments and the impact on pricing assessment are underway.

In Q4 2013 the Agency started public consultations on changes in processes in HT's reference offers in following markets:

- wholesale (physical) network infrastructure access (including shared or fully unbundled access)
- wholesale broadband access
- retail access to the public communications network at a fixed location

The deadline for implementation of five HAKOM decisions from February and March 2014 on HT's wholesale reference offers changes was 28 April, 2014. Stricter conditions for fast and efficient wholesale provisioning and fault repair (SLA) have been set.

From December 2013 to February 2014, the Agency held public consultations on the decision proposal to deregulate the retail market for leased lines. The company holds SMP status as defined under the old legal framework in this market. The final decision is pending.

In March 2014, the Agency started collecting data for a new round of analysis of the following markets:

- retail access to the public communications network at a fixed location
- publicly available local and/or national telephone service provided at a fixed location for residential customers
- publicly available local and/or national telephone service provided at a fixed location for non-residential customers.

The final Agency decision is expected in Q4 2014. To date, the EU tendency has been to reduce the number of markets susceptible to ex ante regulation and reduce retail market regulation.

In December 2013, the Agency held a first round of public consultations on the cost orientation of wholesale BSA prices for services based on the copper and fiber network and in April 2014 a second round of the above mentioned public consultations was opened and is ongoing. Main novelties are (i) lower BSA prices on copper and (ii) wholesale model for fiber changed in a way to ensure alternative operators bear higher risk when renting fiber from HT. New prices based on the Agency's cost models are expected to come into force in October 2014 after clearance by the European Commission.

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 February 2014 HAKOM requested that HT should complete the ECI data base. At the EU level, the European Commission initiated a study aimed at developing a new broadband mapping methodology applicable in all member states that would facilitate the rollout of broadband by reducing the costs.

In April 2014 the HT and Optima Telekom concentration notification process to the Competition Agency was completed. The Competition Agency conditionally approved the concentration of HT and Optima Telekom over a maximum period of four years. HT is obliged to comply with various measures ensuring Optima's business is run on an arm's length principle. After the expiration of three years, HT is obliged to start the process of selling all its shares in Optima.

1.5 Change in reporting of operational data

In Q4 2013 treatment of revenue from default interests and dunning letters was amended and presented as a part of Revenue instead of Other operating income for the whole of 2013. In order to reconcile the presentation of comparable period data with data presented in Q1 2014, the following positions in the financial statements for Q1 2013 were also reclassified as follows: Other operating income (HRK -18 million), Revenue (HRK +18 million).

1.6 Summary of key financial indicators

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Revenue	1,607	1,713	*-6.2%*	1,607	1,713	*-6.2%*
EBITDA before exceptional items	630	669	*-5.8%*	630	669	*-5.8%*
Exceptional items	54	60	*-9.3%*	54	60	*-9.3%*
EBITDA after exceptional items	575	609	*-5.5%*	575	609	*-5.5%*
EBIT (Operating profit)	250	292	*-14.2%*	250	292	*-14.2%*
Net profit	199	238	*-16.5%*	199	238	*-16.5%*
EBITDA margin before exceptional items	39.2%	39.0%	*0.1 p.p.*	39.2%	39.0%	*0.1 p.p.*
EBITDA margin after exceptional items	35.8%	35.5%	*0.3 p.p.*	35.8%	35.5%	*0.3 p.p.*
EBIT margin	15.6%	17.0%	*-1.5 p.p.*	15.6%	17.0%	*-1.5 p.p.*
Net profit margin	12.4%	13.9%	*-1.5 p.p.*	12.4%	13.9%	*-1.5 p.p.*

in HRK million	At 31Mar 2014	At 31 Dec 2013	change
Cash and cash equivalents	3,110	2,039	*52.5%*
Total assets	12,922	12,820	*0.8%*
Total issued capital and reserves	10,899	10,700	*1.9%*

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Net cash flow from operating activities	424	461	*-8.2%*	424	461	*-8.2%*

RESIDENTIAL SEGMENT

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Revenue	951	982	*-3.1%*	951	982	*-3.1%*

Contribution to EBITDA before EI	657	649	*1.2%*	657	649	*1.2%*

BUSINESS SEGMENT

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Revenue	656	732	*-10.3%*	656	732	*-10.3%*
Contribution to EBITDA before EI	320	407	*-21.4%*	320	407	*-21.4%*

NETWORK & SUPPORT FUNCTIONS

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Contribution to EBITDA before EI	-347	-387	*10.4%*	-347	-387	*10.4%*

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Three months to 31 Mar 2013	7.58	7.59	5.74	5.92
Three months to 31 Mar 2014	7.65	7.66	5.58	5.58

1.8 Selected Operational Data

Key operational data	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Mobile subscribers in 000						
Number of subscribers	2,272	2,309	*-1.6%*	2,272	2,309	*-1.6%*
- Residential	1,801	1,847	*-2.5%*	1,801	1,847	*-2.5%*
- Business	471	462	*1.9%*	471	462	*1.9%*
Number of postpaid subscribers	1,090	1,006	*8.4%*	1,090	1,006	*8.4%*
Number of prepaid subscribers	1,182	1,303	*-9.3%*	1,182	1,303	*-9.3%*
Minutes of use (MOU) per average subscriber	179	162	*10.3%*	179	162	*10.3%*
- Residential	164	142	*15.5%*	164	142	*15.5%*
- Business	239	244	*-2.2%*	239	244	*-2.2%*
Blended ARPU (monthly average for the period in HRK)	77	83	*-6.6%*	77	83	*-6.6%*
- Residential	67	68	*-1.8%*	67	68	*-1.8%*
- Business	116	140	*-16.8%*	116	140	*-16.8%*
Blended non-voice ARPU (monthly average for the period in HRK)	33	30	*11.4%*	33	30	*11.4%*
SAC per gross add in HRK	138	103	*33.8%*	138	103	*33.8%*
Churn rate (%)	3	3	*-0.2 p.p.*	3	3	*-0.2 p.p.*
Penetration (%) [1)]	115	115	*-0.9 p.p.*	115	115	*-0.9 p.p.*

Market share of subscribers (%) [1]	47	47	*0.1 p.p.*	47	47	*0.1 p.p.*
Data subscribers (in 000) [2]	1,316	1,190	*10.6%*	1,316	1,190	*10.6%*

1) Source: VIPnet's published quarterly report Q1 2013 and Tele2's quarterly report for Q1 2013 and Q3 2013. Number of customers for VIPnet for Q1 2014 is internally estimated.

2) Mobile data customers refer to SIM cards with recurring and non-recurring data usage, allowing access to internet and data services through the mobile network infrastructure. Recurring data usage referes to the PSD access data share of voice & data bundle price plans or optins for smarthphones or comparable devices with recurring payment (>1month) and a predefined data volume (incl. flat). Non-recurring data usage refers to revenues frompay-for-use customers using smarthphones or comparable devices.

Key operational data	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Fixed mainlines in 000						
Fixed mainlines - retail [1]	**1,108**	**1,192**	***-7.1%***	**1,108**	**1,192**	***-7.1%***
- Residential	955	1.020	*-6.3%*	955	1.020	*-6.3%*
- Business	153	173	*-11.6%*	153	173	*-11.6%*
Fixed mainlines - wholesale (WLR)	**120**	**105**	***14.8%***	**120**	**105**	***14.8%***
- Residential	104	87	*19.5%*	104	87	*19.5%*
- Business	17	18	*-8.0%*	17	18	*-8.0%*
Total Traffic (mill. of minutes) [5]	**427**	**549**	***-22.3%***	**427**	**549**	***-22.3%***
- Residential	346	435	*-20.3%*	346	435	*-20.3%*
- Business	81	115	*-29.7%*	81	115	*-29.7%*
ARPA voice per access (monthly average for the period in HRK) [2]	**95**	**107**	***-10.9%***	**95**	**107**	***-10.9%***
- Residential	84	92	*-9.2%*	84	92	*-9.2%*
- Business	165	193	*-14.4%*	165	193	*-14.4%*
IP mainlines/customers in 000						
Broadband access lines - retail [3]	**624**	**634**	***-1.5%***	**624**	**634**	***-1.5%***
- Residential	518	524	*-1.0%*	518	524	*-1.0%*
- Business	106	110	*-3.7%*	106	110	*-3.7%*
Broadband access lines – wholesale [4]	**54**	**31**	***76.1%***	**54**	**31**	***76.1%***
- Business	54	31	*76.1%*	54	31	*76.1%*
TV customers	**392**	**369**	***6.3%***	**392**	**369**	***6.3%***
- Residential	370	348	*6.3%*	370	348	*6.3%*
- Business	22	21	*6.9%*	22	21	*6.9%*
thereof IPTV	**338**	**333**	***1.6%***	**338**	**333**	***1.6%***
- Residential	318	313	*1.5%*	318	313	*1.5%*
- Business	21	20	*3.7%*	21	20	*3.7%*
thereof Cable TV	**6**	**6**	***0.3%***	**6**	**6**	***0.3%***
- Residential	6	6	*0.4%*	6	6	*0.4%*
- Business	0	0	*-9.3%*	0	0	*-9.3%*
thereof Satellite TV	**48**	**30**	***59.8%***	**48**	**30**	***59.8%***

- Residential	46	29	*59.3%*	46	29	*59.3%*
- Business	2	1	*74.6%*	2	1	*74.6%*
Fixed-line customers	**2**	**1**	***10.3%***	**2**	**1**	***10.3%***
VPN connection points	**5**	**4**	***7.0%***	**5**	**4**	***7.0%***
Broadband retail ARPA (monthly average for the period in HRK)	**125**	**127**	***-1.6%***	**125**	**127**	***-1.6%***
- Residential	123	126	*-1.7%*	123	126	*-1.7%*
- Business	132	134	*-1.3%*	132	134	*-1.3%*
TV ARPU (monthly average for the period in HRK)	**80**	**72**	11.5%	**80**	**72**	11.5%
- Residential	79	71	10.9%	79	71	10.9%
- Business	95	79	20.2%	95	79	20.2%

Data lines in 000						
Total data lines	**5**	**5**	***1.1%***	**5**	**5**	***1.1%***

Wholesale customers in 000						
CPS (Carrier Pre-Selection)	19	30	*-37.0%*	19	30	*-37.0%*
NP (Number portability) users/number	740	668	*10.9%*	740	668	*10.9%*
ULL (Unbundled Local Loop)	174	167	*4.4%*	174	167	*4.4%*

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

2. Group financial performance

2.1 Revenue

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Voice revenue	666	820	*-18.7%*	666	820	*-18.7%*
Non voice revenue	702	676	*3.9%*	702	676	*3.9%*
Other service revenue	128	108	*19.1%*	128	108	*19.1%*
Terminal equipment	68	51	*34.0%*	68	51	*34.0%*
Miscellaneous [1]	43	59	*-27.9%*	43	59	*-27.9%*
Revenue [2]	1,607	1,713	*-6.2%*	1,607	1,713	*-6.2%*

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +18 million) made for Q1 2013.
2) Due to new classification of revenue 2013 slightly changed in structure.

In Q1 2014, total consolidated revenue decreased by 6.2% to HRK 1,607 million from HRK 1,713 million in Q1 2013. The decrease is driven by voice revenue (HRK 153 million) and miscellaneous revenue (HRK 16 million), and slightly offset by an increase in non voice revenue (HRK 26 million), other service revenue (HRK 21 million) and terminal equipment (HRK 17 million).

The negative revenue development was the result of intensified competitive pressure from bundled telecommunication offers and downward pressure on pricing, falling consumption and continued economic slowdown. Additionally, roaming revenues decreased by HRK 16 million and visitor revenues by HRK 5 million mostly impacted by new EU regulation from 1 July 2013.

The contribution of subsidiaries to Group revenue increased, with Iskon contributing HRK 89 million in Q1 2014 (Q1 2013: HRK 78 million) and Combis contributing HRK 86 million (Q1 2013: HRK 75 million).

Voice revenue

Voice revenue declined by HRK 153 million, or 18.7%. The fall was driven by lower mobile (down HRK 66 million, or 18.0%) and fixed voice revenue (down HRK 88 million, or 19.2%).

Business mobile voice revenue registered a fall of HRK 34 million, or 27.1%. Mobile retail revenue decreased by HRK 24 million, owing to a 2.2% decline in minutes of use per average customer and lower average prices, despite a slight 1.9% increase in the customer base. Price decreases are being driven primarily by strong competitive pressure in the mobile market combined with the adverse macro-economic environment. In addition, EU regulation as of 1 July 2013, led to lower prices in roaming.

MTC revenue fell by HRK 6 million as a result of a decline in the national and international mobile termination rate (MTR). These factors also resulted in a decrease in ARPU. Visitors revenue declined by HRK 3 million due to lower prices (implementation of EU regulation), although voice traffic increased.

Residential mobile voice revenue also fell by HRK 32 million, or 13.4% primarily due to fall in the prepaid segment caused by a 9.5% drop of the customer base and decrease of the average revenue per user. The customer base fell as a result of aggressive mobile number portability offers available on the market, while lower prepaid ARPU is the result of the mobile termination price drop and a lower number of recharges.

Fixed retail voice revenue declined by HRK 64 million, or 16.1%. This is largely the result of a 7.1% decrease in the number of mainlines, which is partially driven by substitution of fixed with mobile and IP services, consequently lowering the number of minutes by 22.3%. In total, voice ARPA declined by 10.9%, to HRK 95.

The fall in fixed wholesale voice revenue (down HRK 24 million, or 38.9%) was mainly driven by lower revenue from international voice services, as international hubbing traffic declined, as did international MTR (Q1 2014: HRK 0.45 vs. Q1 2013: HRK 1.28). In addition, national voice revenue decreased due to drop of fixed origination and termination prices.

Non voice revenue

Non voice revenue increased by HRK 26 million, or 3.9%, as a result of higher residential segment revenue (up HRK 27 million, or 6.6%). This increase resulted from higher mobile revenue (up HRK 19 million, or 9.3%) from an increased volume of data and multimedia packages included in the new tariffs, and from a rise in wholesale revenue (up HRK 5 million, or 6.7%) driven by higher infrastructure revenue. In addition, fixed retail revenue increased by HRK 2 million, or 0.5%, mostly as a result of a 6.3% increase in TV customers and the promotion of additional TV program packages.

Growth in mobile revenue (up HRK 19 million, or 9.3%) was driven by residential revenue. This resulted from the ongoing trend of substitution of traditional voice and SMS services with data, driven by an increasing proportion of customers with smartphones. The business segment recorded a HRK 1 million drop in revenue as a result of lower prices (EU regulation from 1 July, 2013), although usage increased.

Wholesale fixed non voice revenue recorded growth of HRK 5 million, or 6.7%, mostly due to higher revenue from infrastructure services as a result of growth in customer base (ULL, WLR, NBSA, BSA) and despite price decreases.

The increase in residential fixed revenue (up HRK 7 million or 2.5%) was driven by a higher number of TV customers, up 6.3%, as well as higher average revenue per user from TV, up 10.9%. This resulted from the promotion of additional packages and sales efforts to acquire Satellite TV customers (especially in rural areas). In addition, the campaign for the triple play offer “MAXobitelj” was undertaken in Q4 2013 and in Q1 2014, and this also contributed to growth in the TV customer base. However, the positive impact on TV services was partially offset by a lower broadband customer base, down 1.0%, and lower broadband ARPA, down 1.7%, as a result of more customers on flat packages (and therefore fewer customers breaching traffic packages).

A decrease in business non voice revenue (down HRK 5 million, or 4.5%) was mostly driven by lower revenue from traditional data due to the migration to IP data and due to a fall in Ethernet services revenue mostly resulting from price competition on the Ethernet market.

Other service revenue

An increase in other service revenue of HRK 21 million, or 19.1%, was driven by higher ICT revenue (up HRK 20 million). ICT revenue growth was mainly derived from Combis IT’s infrastructure business (up HRK 11 million) and HT specific ICT solutions for key accounts (up HRK 8 million). In addition, the HT ICT standard products portfolio delivered an increase of HRK 1 million due to the introduction of fiscalization.

Terminal equipment

Terminal equipment revenue increased by HRK 17 million, or 34.0% primarily as a result of the the impact of the introduction of split contracts (entire handset revenue recognized at the moment of handset sale to the customer) as well as the MAXobitelj promotion, which included smartphones. The increase was slightly offset by lower handsets prices owing to a competitive market.

Miscellaneous

The decline in miscellaneous revenue (down HRK 16 million, or 27.9%) was mainly driven by lower national roaming revenue due to a fall in prices (down HRK 14 million).

2.2 Operating expenses

Total consolidated operating expenses before depreciation and amortization decreased by 4.3% to HRK 1,073 million in Q1 2014 from HRK 1,122 million in Q1 2013. This was result of lower material expenses, employee benefits expenses and other expenses, as well as a greater amount of work performed by the Group and capitalized, and was partially offset by higher write downs of assets.

2.2.1 Material expenses

Material expenses decreased from HRK 491 million in Q1 2013 to HRK 457 million in Q1 2014 as a result of lower service expenses (down HRK 46 million) and energy costs (down HRK 2 million), with higher merchandise costs (up HRK 14 million).

A decrease in services expenses of 19.9% resulted primarily from lower telecommunication costs and copyright fees.

International telecommunication costs declined (down HRK 32 million), mainly due to lower international hubbing traffic and lower average roaming unit costs.
Domestic telecommunication costs decreased (down HRK 8 million), mainly due to lower FTR and MTR, combined with a fall in traffic.

Lower copyright fees (down HRK 6 million), driven by the residential segment, resulted from a higher share of capitalized content rights contracts. However, the Group also has a higher number of TV customers and they are taking a number of additional TV packages, especially sport and HBO packages.

The merchandise costs increase (up HRK 14 million) was mainly driven by increased ICT (up HRK 30 million) and mobile (up HRK 11 million), while fixed merchandise was lower (down HRK 27 million) compared to the same period last year.

The increase in ICT merchandise costs resulted from revenue growth in the business. Mobile merchandise costs were largely higher due to an increased number of postpaid gross adds and a different tariff and handset mix, mostly from residential (up HRK 12 million). The decrease in the fixed segment resulted from lower customer acquisition and retention related merchandise costs following several marketing campaigns the previous year, largely in the residential segment (down HRK 25 million).

2.2.2 Employee benefits expenses

Total employee benefits expenses decreased by 3.1% to HRK 316 million in Q1 2014 from HRK 326 million in Q1 2013. Costs for redundancy in 2014 were booked in amount of HRK 54 million, against HRK 60 million in Q1 2013. Excluding redundancy costs, employee benefits expenses decreased by HRK 5 million due to lower expenses related mainly to lower Easter bonus payments (in 2013 this occurred in Q1, while in 2014 it will be in Q2 2014).

The number of FTE decreased to 5,493 in Q1 2014 from 5,514 in Q1 2013, mainly as a result of the Headcount Restructuring program, the impact of which is partially offset by new hires as a result of the transformation of the business.

2.2.3 Other expenses

Other expenses decreased by 3.0% to HRK 288 million in Q1 2014 from HRK 297 million in Q1 2013, mainly due to lower provisions, with higher external employment costs resulting primarily from the greater usage of direct sales channels.

2.3 Write down of assets

Asset write downs increased by 67.9% to HRK 25 million in Q1 2014 from HRK 15 million in Q1 2013, mainly due to adjusted receivables related to wholesale operators.

2.4 Depreciation and amortization

Depreciation and amortization were higher than in the same period last year, up 2.6% (Q1 2014: HRK 325 million; Q1 2013: HRK 317 million), mainly due to higher content capitalization.

2.5 T-HT Group profitability

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Revenue	1,607	1,713	*-6.2%*	1,607	1,713	*-6.2%*
EBITDA before exceptional items	630	669	*-5.8%*	630	669	*-5.8%*
Exceptional items [1)]	54	60	*-9.3%*	54	60	*-9.3%*
EBITDA after exceptional items	575	609	*-5.5%*	575	609	*-5.5%*
EBIT (Operating profit)	250	292	*-14.2%*	250	292	*-14.2%*
Net profit	199	238	*-16.5%*	199	238	*-16.5%*
EBITDA margin before exceptional items	39.2%	39.0%	*0.1 p.p.*	39.2%	39.0%	*0.1 p.p.*
EBITDA margin after exceptional items	35.8%	35.5%	*0.3 p.p.*	35.8%	35.5%	*0.3 p.p.*
EBIT margin	15.6%	17.0%	*-1.5 p.p.*	15.6%	17.0%	*-1.5 p.p.*
Net profit margin	12.4%	13.9%	*-1.5 p.p.*	12.4%	13.9%	*-1.5 p.p.*

1) Exceptional items refer to redundancy costs totalling HRK 54 million in Q1 2014 and HRK 60 million in Q1 2013.

EBITDA before exceptional items decreased by 5.8% to HRK 630 million in Q1 2014 from HRK 669 million in Q1 2013. This was a result of lower net revenue, down 6.2%, and lower operating expenses, which declined 4.0% and partially offset by higher other operating income.

Other operating income increased by HRK 24 million compared to Q1 2013 mainly as a result of higher income fees related to a court decision on the collection process.
Consolidated operating profit decreased by 14.2% to HRK 250 million in Q1 2014 from HRK 292 million in Q1 2013 owing to the factors outlined above regarding EBITDA, depreciation and amortization.

Consolidated net profit decreased by 16.5% to HRK 199 million in Q1 2014 from HRK 238 million in Q1 2013. This fall was primarily a result of lower EBIT along with a fall in net financial income, due largely to lower interest income from bank deposits and lower exchange rate gains.

2.6 Balance sheet

The total value of assets increased by 0.8% from 31 December 2013, driven by an increase in current assets. This was the outcome largely of higher cash and cash equivalents.
Total issued capital and reserves increased to HRK 10,899 million at 31 March 2014 from HRK 10,700 million at 31 December 2013 as a result of higher retained earnings.

Total current liabilities decreased to HRK 1,742 million at 31 March 2014 from HRK 1,844 million at 31 December 2013, mainly due to the settlement of higher payables for capital expenditures and payables related to international traffic at year end.

2.7 Cash flow

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

Compared to Q1 2013, net cash flow from operating activities decreased by 8.2% mainly due to a fall in current liabilities and lower net profit, but partially offset by positive development in current receivables.

Net cash flow from investing activities increased by 245.3% mainly as a result of as a result of significant higher maturity of financial assets (time deposits).

2.8 Capital expenditure

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*Change*
Business	32	35	*-6.6%*	32	35	*-6.6%*
Residential	109	73	*49.7%*	109	73	*49.7%*
Network and Support Functions	47	113	*-58.4%*	47	113	*-58.4%*
T-HT Group	**188**	**220**	***-14.5%***	**188**	**220**	***-14.5%***
Capex / Revenue ratio	11.7%	12.9%	*-1.1 p.p.*	11.7%	12.9%	*-1.1 p.p.*

In Q1 2014, capital expenditure decreased by 14.5% to HRK 188 million (Q1 2013: HRK 220 million) primarily due to real estate investments in Q1 2013 that were not recorded in Q1 2014.

In 2014 T-HT is continuing to focus on the further development of its network infrastructure, increasing broadband access capacity and availability, enabling the IP transformation of the network and technology of the Company to secure business continuity and long term sustainability of T-HT's leading market position.

T-HT is continuing its strategic Mobile broadband deployment project, which will enable the Group to outperform the competition in mobile broadband with respect to coverage, capacity, scalability, performance of network and continuation of a single RAN project.

At the end of Q1 2014, T-HT's 4G network reaches 35.7% of the population and the 3G network has 76.7% population coverage.

The implementation of the all-IP service platform is a strategic priority for the business transformation in the period from 2012 to 2015. T-HT is continuing its strategic PSTN migration project, which enables fixed voice service continuity with efficient transformation of obsolete TDM technology to IP. At the end of Q1 2014 46.4% customers had been migrated and 10 local exchanges were shut down.

To facilitate the migration of obsolete 10GE Metro Ethernet Nodes to IP/MPLS platform, T-HT has continued its MPLS project and in Q1 2014 had installed 9 new nodes and migrated 12 nodes.

The Group also continues to invest in the TeraStream project to secure a High Speed Broadband Network based on IP protocol version 6. This includes new customers optical Gigabit home connections, fast provisioning time, new premium 3Play services virtualized in the data center cloud and an improved customer experience. In Q1 2014 T-HT connected 100 pilot customers on 3Play services for testing and verifying this new technology for future commercial use.

IT activities and accomplishments are focused on the technological achievement of the 'digital company' business model and transformation to an 'on-line' business model, the convergence of the business portfolio and consolidation of information systems and business support. In Q1 2014, the Group implemented the enhancement of a OneBill/convergent products enabler (MAX Obitelj) and completed the internal blueprint for scenarios of the future CRM and Billing landscape (e.g. CRM+).

3. Analysis of segment results

3.1 Residential Segment

Highlights

- T-HT maintained its leading position in all three markets (mobile, fixed line and IP)
- Mobile subscribers down 2.5% (down 1.8% on Q4 2013)
- 518,259 broadband retail access lines, down 1.0% (flat on Q4 2013), and 369,816 TV customers, up 6.3% (flat on Q4 2013)
- Revenue down 3.1%, due mainly to lower voice revenue in mobile and fixed partly offset by higher non-voice and terminal equipment revenue
- Contribution to EBITDA of HRK 657 million, up 1.2%
- Refreshment of T-Prepaid tariff portfolio
- Ongoing promotion of MAX2/MAX3 packages and Ultra MAX packages on FTTH
- Expansion of exclusive TV content with MAX Auto Moto GP and HBO premium TV packages
- Further promotions on 4G mobile internet tariffs with attractive handset offers
- Continued growth in IPTV and Satellite TV

Key Operational Data	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Mobile subscribers in 000						
Number of subscribers	1,801	1,847	*-2.5%*	1,801	1,847	*-2.5%*
Minutes of use (MOU) per average subscriber	164	142	*15.5%*	164	142	*15.5%*
Blended ARPU (monthly average for the period in HRK)	67	68	*-1.8%*	67	68	*-1.8%*
Fixed mainlines in 000						
Fixed mainlines - retail [1)]	955	1.020	*-6.3%*	955	1.020	*-6.3%*
Fixed mainlines - wholesale (WLR)	104	87	*19.5%*	104	87	*19.5%*
Total Traffic (mill. of minutes)[3)]	346	435	*-20.3%*	346	435	*-20.3%*
ARPA voice per access (monthly average for the period in HRK)	84	92	*-9.2%*	84	92	*-9.2%*

IP mainlines/customers in 000						
Broadband access lines - retail [2]	**518**	**524**	***-1.0%***	**518**	**524**	***-1.0%***
TV customers	**370**	**348**	***6.3%***	**370**	**348**	***6.3%***
thereof IPTV	318	313	*1.5%*	318	313	*1.5%*
thereof Cable TV	6	6	*0.4%*	6	6	*0.4%*
thereof Satellite TV	46	29	*59.3%*	46	29	*59.3%*
Broadband retail ARPA (monthly average for the period in HRK)	**123**	**126**	***-1.7%***	**123**	**126**	***-1.7%***
TV ARPU (monthly average for the period in HRK)	**79**	**71**	***10.9%***	**79**	**71**	***10.9%***

[1] Includes POTS, FGSM and old PSTN Voice customers migrated to IP; excluding Payphones
[2] Includes ADSL, FTTH and Naked DSL
[3] Total traffic is generated by fixed retail mainlines as defined in note 1.

3.1.1 Business review

In Q1 2014 T-HT continued to promote MAXobitelj, and successful and attractive PLAN tariffs and handsets as well as Simpa's double recharge promotion in combination with handsets and an attractive "Prejaka" option offer.

In line with its strategy of providing innovation and quality, T-HT introduced a brand new offer for its prepaid users featuring unlimited texting, telephony and internet as well as a Parental Control service. For just HRK 30 a month, users can choose between several different options, namely, Pričam&surfam, Pišem&surfam and Pričam&pišem, created to suit a range of customer's needs.

A new bonbon campaign was introduced to reinforce the benefits and advantages of the bonbon postpaid offer - voice, text and data packages combined according to customers' specific requirements.
T-HT has further expanded the coverage of its 4G network based on LTE (Long Term Evolution) technology providing its customers from smaller towns and villages access to the fastest mobile internet available. Also, additional promotion of mobile Internet tariffs based on 4G network continued, accompanied by new a higher-value Mobile internet portfolio launch (e.g. MAXtv To Go) and attractive offers of latest tablets like Samsung Galaxy Tab with additional discounts through the HT web shop.

The promotion of MAX2 and MAX3 packages continued as well as promotion of Ultra MAX packages: a Fiber offer introduced in December 2013 that provides basic FTTH speed of 40mbps download and 10mbps upload and speed upgrade to 100mbps download and 20mbps upload. Within Ultra MAX packages customers are able to enjoy 10 times faster Internet in the first three months of usage for the price of MAX2/3 package with 12 or 24 month contract duration.

MAXtv Sat continued the promotion offering 50% discount on Basic or Basic Extra package monthly fee for first nine months and one month of using additional packages free of charge (HBO & Cinemax package and Sport Plus Package) for activations during the promotion period.

In 2013, the HotSpot Fon service, part of the largest global WIFI network Fon, was launched by T-HT. The service enables its customers to use over seven million Fon hotspots in over 100 countries worldwide for free. New hotspots were opened in Q1 2014 offering free internet access as part of a project by the EU and Croatia's Ministry of Tourism.

The mobile customer base decreased by 2.5%, from 1,846,535 customers in Q1 2013 to 1,800,780 customers in Q1 2014, mainly as a result of aggressive competitive offers and a decrease of customers with double SIM cards due to continuing trend of favourable flat and cross net offers. The number of postpaid customers was 13.1% higher than in Q1 2013 as a result of successful new tariff offers. However, the number of prepaid customers was 9.5% lower than in Q1 2013 due to the overall decline of the prepaid market.
Minutes of usage per average customer at the end of March 2014 increased by 15.5% compared to the same period last year due to the introduction of flat offers and bundles with a high number of minutes in postpaid and prepaid tariffs. Blended ARPU decreased by 1.8% compared to Q1 2013 as a result of a very competitive market driven by attractive deals for customers.

At the end of March 2014, total fixed access mainlines stood at 955,463 or 6.3% lower than in March 2013. The decline was exacerbated by the telecommunication market trend of fixed to mobile and IP substitution, regulation and enforced competition. Fixed telephony users generated 346 million of minutes in Q1 2014, down 20.3% than in the same period last year as a result of a shrinking customer base and fixed to mobile substitution.

Fixed voice ARPA decreased by 9.2% from the same period last year as a result of the general market trends outlined above.

At the end of March 2014, the number of broadband retail accesses decreased by 1.0% compared to March 2013 to a level of 518,259. At the same time, broadband retail ARPA was 1.7% below Q1 2013 due to migrations to flat packages.

The TV customer base is growing steadily. At the end of March 2014, the Group recorded 369,816 customers, a 6.3% increase from March last year. TV ARPU is 10.9% above Q1 2013 driven by premium content (additional program packages, video on demand etc).

3.1.2 Residential Segment financial performance

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Voice revenue	446	520	*-14.2%*	446	520	*-14.2%*
Non voice revenue	442	415	*6.6%*	442	415	*6.6%*
Other service revenue	1	1	*100.1%*	1	1	*100.1%*
Terminal equipment	49	34	*45.3%*	49	34	*45.3%*
Miscellaneous [1]	12	13	*-3.7%*	12	13	*-3.7%*
Total Revenue [2]	951	982	*-3.1%*	951	982	*-3.1%*
Operating expenses	**294**	**333**	***-11.6%***	**294**	**333**	***-11.6%***
Contribution to EBITDA before EI	**657**	**649**	***1.2%***	**657**	**649**	***1.2%***

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +9 million) made for Q1 2013.
2) Due to new classification of revenue 2013 slightly changed in structure.

3.2 Business Segment

Highlights

- Substantial customer base across all segments and products
- Mobile subscribers up 1.9% (flat on Q4 2013)
- 105,692 broadband retail access lines, down 3.7% (down 2.1% on Q4 2013) and 22,385 TV customers, up 6.9% (up 0.9% on Q4 2013)
- Revenue down 10.3%, due to lower prices in national mobile network and roaming accompanied by lower voice usage in fixed network
- Wholesale revenue highly influenced by EU and national regulation
- ICT revenue constantly growing, further development of Cloud services and Marketplace
- Contribution to EBITDA of HRK 320 million, down 21.4%
- Mobile, TV and IP Data customer base growing in 2014
- New portfolio of Mobile net tariffs launched
- New redesigned business MAX2 and MAX3 packages launched

Key Operational Data	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Mobile subscribers in 000						
Number of subscribers	471	462	*1.9%*	471	462	*1.9%*
Minutes of use (MOU) per average subscriber	239	244	*-2.2%*	239	244	*-2.2%*
Blended ARPU (monthly average for the period in HRK)	116	140	*-16.8%*	116	140	*-16.8%*
Fixed mainlines in 000						
Fixed mainlines - retail [1)]	153	173	*-11.6%*	153	173	*-11.6%*
Fixed mainlines - wholesale (WLR)	17	18	*-8.0%*	17	18	*-8.0%*
Total Traffic (mill. of minutes)[4)]	81	115	*-29.7%*	81	115	*-29.7%*
ARPA voice per access (monthly average for the period in HRK)	165	193	*-14.4%*	165	193	*-14.4%*
IP mainlines/customers in 000						
Broadband access lines - retail [2)]	106	110	*-3.7%*	106	110	*-3.7%*
Broadband access lines-wholesale[3)]	54	31	*76.1%*	54	31	*76.1%*
TV customers	22	21	*6.9%*	22	21	*6.9%*
thereof IPTV	21	20	*3.7%*	21	20	*3.7%*
thereof Cable TV	0	0	*-9.3%*	0	0	*-9.3%*
thereof Satellite TV	2	1	*74.6%*	2	1	*74.6%*
Fixed-line customers	2	1	*10.3%*	2	1	*10.3%*
VPN connection points	5	4	*7.0%*	5	4	*7.0%*
Broadband retail ARPA (monthly average for the period in HRK)	132	134	*-1.3%*	132	134	*-1.3%*

TV ARPU (monthly average for the period in HRK)	95	79	*20.2%*	95	79	*20.2%*
Data lines in 000						
Total data lines	5	5	*1.1%*	5	5	*1.1%*
Wholesale customers in 000						
CPS (Carrier Pre-Selection)	19	30	*-37.0%*	19	30	*-37.0%*
NP (Number portability) users/number	740	668	*10.9%*	740	668	*10.9%*
ULL (Unbundled Local Loop)	174	167	*4.4%*	174	167	*4.4%*

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

3.2.1 Business Review

The mobile customer base rose 1.9% in Q1 2014 compared with the same quarter of the previous year. Minutes of use per average customer were down 2.2% from the previous year. Due to the tough economic environment and EU regulation of roaming prices, which started on 1 July 2013, blended ARPU was 16.8% lower from the previous year. However, blended non-voice ARPU decreased only slightly, down 0.3%, owing to smartphone penetration and data growth.

T-HT's fixed retail customer base is developing in line with general trends in the telecommunication market, due to fixed to mobile substitution and IP migration and is heavily impacted by the challenging economic environment. At 152,653 lines, it was 11.6% lower in Q1 2014 than the same quarter of the previous year.

As a result of the lower customer base, owing to the factors outlined above, total fixed traffic was 29.7% lower than the same period of the previous year. Fixed voice ARPA decreased to HRK 165, down 14.4% on the previous year.

The broadband retail customer base was 3.7% lower in Q1 2014, owing to stronger competition, at 105,692. ARPA was also slightly lower.

T-HT introduced its "Poslovni Ultra MAX Packages" promotion in the period from 16 December 2013 – 11 February 2014 and this was prolonged in March to May 2014.
The TV customer base grew by 6.9% to 22,385 customers due to continuous service and program offer improvements.

The number of data lines was higher by 1.1% in Q1 2014 compared to the same period the previous year. Traditional data lines are decreasing as T-HT promotes migration to IP based products. Consequently, the Metro Ethernet service is growing.

More than 1,720 companies and about 24,600 end users are using T-HT Cloud services. Following the continuous expansion of the Cloud portfolio in Q4 2013, new services were launched including the Cloud Data Centre and Mobile device management. The Virtual Server has also been upgraded with new packages and new functionalities.

More than 7,700 units of Fiscal cash registers have now been sold. At the end of Q1 2014; more than 5,146 users were using T-HT Fleet management and more than 8,455 were customers of the Cloud Exchange services.

In Q1 2014, the ICT Marketplace portal was upgraded to version 2.0 with new features (on-line registration; two-way CRM; search functionality; rating of applications; redesigned portal for the Cloud Server, Cloud Computer, Cloud Exchange).

Combis made a positive contribution to the ICT business largely as a result of closing some large projects primarily in IT infrastructure and Professional services. The other business units (Technical support, Network infrastructure and connectivity, Application development, IP Communication and Direct banking solutions), despite the challenging market environment, remain stable.

Wholesale

At the end of March 2014 there were 173,913 active ULL lines and 54,257 wholesale DSL and naked DSL lines (BSA). The ULL market is still growing, but growth is slowing compared to previous year. The number of WLR lines increased to 120,112 compared to 104,634 at the end of March 2013.

As a consequence of the WLR offer, the number of "pure" CPS customers decreased to 18,853 at the end of March 2014. 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 March 2014, 740,127 ported numbers from HT's fixed network to other fixed networks were recorded, compared to 667,521 at the end of March 2013. The number port out process is mainly connected with the growth of ULL and NBSA services. Despite the growth in the number of WLR customers, the volume of originated minutes in Q1 2014 declined by 8.9% compared to the same period in 2013.

The impact of the application of EU regulated prices in retail and wholesale contributed to significant growth in the usage of roaming services by foreign visitors in the T-HT mobile network and by T-HT retail users abroad. Visitors generated 37.5% more voice minutes and 219.0% more data traffic. At the same time, on the cost side T-HT's mobile customers generated 80.1% more roaming voice traffic in foreign countries, 29.3% more SMS and 400.0% more data traffic compared to the same period in 2013.

The total capacity of data and IP services in Croatia and in the region sold to foreign operators increased by 6% over the first quarter of 2013.

Total international voice traffic terminated into T-HT's Croatian fixed network decreased by 16.5%. International outbound voice traffic from the T-HT fixed network decreased by 16.2%, but international outbound traffic from the T-HT mobile network (including visitors and MTC roaming) grew by 36.2% in Q1 2014 over the previous year.

3.2.2 Business Segment financial performance

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Voice revenue	220	300	*-26.6%*	220	300	*-26.6%*
Non voice revenue	260	261	*-0.5%*	260	261	*-0.5%*
Other service revenue	127	107	*18.6%*	127	107	*18.6%*

Terminal equipment	19	17	*11.4%*	19	17	*11.4%*
Miscellaneous [1]	30	46	*-34.6%*	30	46	*-34.6%*
Total Revenue [2]	**656**	**732**	***-10.3%***	**656**	**732**	***-10.3%***
Operating expenses	**337**	**325**	***3.7%***	**337**	**325**	***3.7%***
Contribution to EBITDA before EI	**320**	**407**	***-21.4%***	**320**	**407**	***-21.4%***

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +10 million) made for Q1 2013.
2) Due to new classification of revenue 2013 slightly changed in structure.

3.3 Network and support functions financial performance

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Other operating income [1]	**41**	**17**	***139.9%***	**41**	**17**	***139.9%***
Operating expenses	**388**	**404**	***-4.0%***	**388**	**404**	***-4.0%***
Contribution to EBITDA before EI	**-347**	**-387**	***10.4%***	**-347**	**-387**	***10.4%***

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK -18 million) made for Q1 2013

4. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2013 made public, there were no material changes to the Group’s risk profile in the period under review.

5. Group 2014 outlook

Revenue

The Croatian economy remains sluggish, with no sign of recovery still since entering recession in 2009. Unemployment has remained at high levels, with many companies undertaking restructuring measures while both public debt and the budget deficit have increased. Current expectations are for relatively flat or only slight GDP growth in 2014.
Telecommunication spending in both the residential and corporate sectors has also tightened while competitive pressure and a stringent domestic and EU regulatory regime continue to exert pressure on the Group's business.
Despite this economic environment, with a stronger contribution from the Group's near core and new businesses and in the absence of major one off negative impact from roaming revenues as seen in previous year, the pace of decline in Group revenue is expected to slow.

EBITDA before exceptional items

The economic environment and revenue trends outlined above, along with changes in the revenue structure, will impact EBITDA accordingly. As a result, the Group expects a 2014 EBITDA margin of between 39% and 41%.

Investments

T-HT Group has identified the need for a significant strategic shift with respect to investment, aimed at halting the downward trend in the performance of the business. To implement this strategy, the T-HT Group will intensify and focus its investment on infrastructure, customer processes and services whilst monitoring business expansion opportunities in both domestic and regional markets. Consequently capex investment amounting to more than HRK 1 billion is again expected in 2014.

6. T-HT Group Financial statements

6.1 Consolidated Income Statement

in HRK million (IFRS HT accounting policies)	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Voice revenue	666	820	*-18.7%*	666	820	*-18.7%*
Non voice revenue	702	676	*3.9%*	702	676	*3.9%*
Other service revenue	128	108	*19.1%*	128	108	*19.1%*
Terminal equipment	68	51	*34.0%*	68	51	*34.0%*
Miscellaneous [1)]	43	59	*-27.9%*	43	59	*-27.9%*
Revenue [2)]	1,607	1,713	*-6.2%*	1,607	1,713	*-6.2%*
Other operating income [1)]	41	17	*139.9%*	41	17	*139.9%*
Total operating revenue	**1,648**	**1,730**	***-4.7%***	**1,648**	**1,730**	***-4.7%***
Operating expenses	**1,073**	**1,122**	***-4.3%***	**1,073**	**1,122**	***-4.3%***
Material expenses	457	491	*-6.9%*	457	491	*-6.9%*
Merchandise, material and energy expenses	274	262	*4.4%*	274	262	*4.4%*
Services expenses	183	229	*-19.9%*	183	229	*-19.9%*
Employee benefits expenses	316	326	*-3.1%*	316	326	*-3.1%*
Other expenses	288	297	*-3.0%*	288	297	*-3.0%*
Work undertaken by the Group and capitalised	-13	-8	*-74.3%*	-13	-8	*-74.3%*
Write down of assets	25	15	*67.9%*	25	15	*67.9%*
EBITDA	**575**	**609**	***-5.5%***	**575**	**609**	***-5.5%***
Depreciation and amortization	325	317	*2.6%*	325	317	*2.6%*
EBIT	**250**	**292**	***-14.2%***	**250**	**292**	***-14.2%***
Financial income	13	19	*-28.6%*	13	19	*-28.6%*
Income/loss from investment in joint ventures	0	3	*-95.6%*	0	3	*-95.6%*
Financial expenses	18	14	*28.1%*	18	14	*28.1%*
Profit before taxes	**246**	**300**	***-18.0%***	**246**	**300**	***-18.0%***
Taxation	48	62	*-23.6%*	48	62	*-23.6%*
Net profit	**199**	**238**	***-16.5%***	**199**	**238**	***-16.5%***
Exceptional items	54	60	*-9.3%*	54	60	*-9.3%*
EBITDA before exceptional items	**630**	**669**	***-5.8%***	**630**	**669**	***-5.8%***

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Miscellaneous (HRK +18 million) made for Q1 2013.
2) Due to new classification of revenue 2013 slightly changed in structure.

6.2 Consolidated Balance Sheet

in HRK million (IFRS HT accounting policies)	At 31 Mar 2014	At 31 Dec 2013	*Change*
Intangible assets	1,334	1,358	*-1.8%*
Property, plant and equipment	5,458	5,570	*-2.0%*
Non-current financial assets	595	594	*0.2%*
Receivables	146	126	*15.7%*
Deferred tax asset	57	60	*-4.6%*
Total non-current assets	**7,589**	**7,708**	***-1.5%***
Inventories	139	115	*21.2%*
Receivables	1,409	1,457	*-3.3%*
Current financial assets	524	1,352	*-61.3%*
Cash and cash equivalents	3,110	2,039	*52.5%*
Prepayments and accrued income	150	149	*0.5%*
Total current assets	**5,332**	**5,112**	***4.3%***
TOTAL ASSETS	**12,922**	**12,820**	***0.8%***
Subscribed share capital	8,189	8,189	*0.0%*
Reserves	409	409	*0.0%*
Revaluation reserves	-1	-1	*35.3%*
Retained earnings	2,103	662	*217.8%*
Net profit for the period	199	1,442	*-86.2%*
Total issued capital and reserves	10,899	10,700	*1.9%*
Provisions	127	132	*-4.3%*
Non-current liabilities	151	142	*6.8%*
Deferred tax liability	2	2	*0.0%*
Total non-current liabilities	**280**	**276**	***1.4%***
Current liabilities	1,578	1,724	*-8.4%*
Deferred income	123	120	*2.6%*
Provisions for redundancy	41	0	-
Total current liabilities	**1,742**	**1,844**	***-5.5%***
Total liabilities	2,023	2,120	*-4.6%*
TOTAL EQUITY AND LIABILITIES	**12,922**	**12,820**	***0.8%***

6.3 Consolidated Cash Flow Statement

in HRK million (IFRS HT accounting policies)	Jan-Mar 2014	Jan-Mar 2013	*change*
Profit before tax	246	300	*-18.0%*
Depreciation and amortization	325	317	*2.6%*
Increase / (decrease) of current liabilities	-142	-64	*-121.3%*
(Increase) / decrease of current receivables	111	62	*80.3%*
(Increase) / decrease of inventories	-24	-22	*-10.8%*
Other cash flow decreases	-92	-131	*29.9%*
Net cash inflow/outflow from operating activities	**424**	**461**	***-8.2%***
Proceeds from sale of non-current assets	0	13	*-98.9%*
Proceeds from sale of non-current financial assets	1	1	*-14.5%*
Interest received	7	12	*-43.0%*
Other cash inflows from investing activities	918	464	*97.9%*
Total increase of cash flow from investing activities	**926**	**490**	***89.0%***
Purchase of non-current assets)	-188	-220	*14.5%*
Purchase of non-current financial assets	0	-75	*100.0%*
Other cash outflows from investing activities	-90	-7	*-1,170.6%*
Total decrease of cash flow from investing activities	**-279**	**-303**	***7.9%***
Net cash inflow/outflow from investing activities	**647**	**187**	***245.3%***
Total increase of cash flow from financing activities	**0**	**0**	-
Repayment of loans and bonds	0	-2	*99.9%*
Dividends paid	0	0	*-99.0%*
Repayment of finance lease	-1	-2	*40.3%*
Total decrease in cash flow from financing activities	**-1**	**-3**	***69.5%***
Net cash inflow/outflow from financing activities	**-1**	**-3**	***69.5%***
Exchange gains/losses on cash and cash equivalents	1	2	*-43.8%*
Cash and cash equivalents at the beginning of period	2,039	3,146	*-35.2%*
Net cash (outflow) / inflow	1,071	647	*65.4%*
Cash and cash equivalents at the end of period	**3,110**	**3,793**	***-18.0%***

6.4 Consolidated EBITDA reconciliation

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Segment Result (Contribution to EBITDA)						
Residential Segment	657	649	*1.2%*	657	649	*1.2%*
Business Segment	320	407	*-21.4%*	320	407	*-21.4%*
Network and Support Functions	-347	-387	*10.4%*	-347	-387	*10.4%*
Total Contribution to EBITDA before SI of the Segments	**630**	**669**	***-5.8%***	**630**	**669**	***-5.8%***
Special influences	54	60	*-9.3%*	54	60	*-9.3%*
Total EBITDA	**575**	**609**	***-5.5%***	**575**	**609**	***-5.5%***

6.5 Group's revenue breakdown under former reporting structure

in HRK million	Q1 2014	Q1 2013	*change*	Jan-Mar 2014	Jan-Mar 2013	*change*
Mobile 1)	637	680	*-6.4%*	637	680	*-6.4%*
Fixed Telephony	315	378	*-16.6%*	315	378	*-16.6%*
Wholesale	115	134	*-14.2%*	115	134	*-14.2%*
IP Revenue	395	388	*1.7%*	395	388	*1.7%*
Data	23	27	*-15.3%*	23	27	*-15.3%*
ICT	113	94	*20.8%*	113	94	*20.8%*
Miscellaneous1)	8	12	*-31.0%*	8	12	*-31.0%*
Energy	0	0	-	0	0	-
Other non telco services	1	0	-	1	0	-
Revenue	**1,607**	**1,713**	***-6.2%***	**1,607**	**1,713**	***-6.2%***

1) Starting from Q4 2013 revenue from dunning letters and default interests presented in Revenue. Consequently, restatement from Other operating income to Mobile revenue (HRK +9 million) and Miscellaneous (HRK +10 million) made for Q1 2013.

6.6 Statement of changes in Equity

Position	AOP	Previous year	Current year
1	2	3	4
1. Subscribed share capital	001	8.188.853.500	8.188.853.500
2. Capital reserves	002	0	0
3. Reserves from profit	003	409.056.013	409.056.013
4. Retained earnings or loss carried forward	004	661.832.263	2.103.343.224
5. Net profit or loss for the period	005	1.441.510.961	198.560.826
6. Revaluation of tangible assets	006	0	0
7. Revaluation of intangible assets	007	0	0
8. Revaluation of available for sale assets	008	-1.151.584	-744.932
9. Other revaluation	009	0	0
10. Total equity and reserves (AOP 001 to 009)	**010**	10.700.101.153	10.899.068.631
11. Foreign exchenge differences ffrom foreign investments	011	0	0
12. Current and deferred taxes	012	-3.541.800	0
13. Cash flow hedge	013	0	0
14. Change of accounting policies	014	17.709.000	0
15. Correction of significant mistakes of prior period	015	0	0
16. Other changes	016	0	0
17.Total increase or decrease of equity (AOP 011 to 016)	**017**	14.167.200	0
17 a. Attributable to majority owners	018	14.167.200	0
17 b. Attributable to minority interest	019	0	0

6.7 Notes to the condensed consolidated financial statements

For the three months ended on 31 March 2014

Basis of preparation

The condensed consolidated financial statements as of 31 March 2014 and for the three months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of HT's consolidated financial statements for the year ended 31 December 2013.

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

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

Period ended 31 March 2013	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Total HRK millions
Segment revenue	982	732	-	1,714
Service revenues, restated	*935*	*668*	-	*1,603*
Terminal equipment, restated	*34*	*17*	-	*51*
Other, restated	*12*	*47*	-	*59*
Usage related direct costs	(74)	(85)	-	(159)
Income and losses on accounts receivable	(7)	(7)	-	(14)
Contribution margin I, restated	900	640	-	1,540
Non-usage related direct costs	(156)	(128)	-	(284)
Segment result, restated	744	512	-	1,257
Other income, restated	-	-	17	17
Other operating expenses	(95)	(105)	(464)	(664)
Depreciation, amortisation and impairment of non-current assets	-	-	(317)	(317)
Operating profit, restated	649	407	(764)	292

Capital expenditure	73	34	113	220
Period ended 31 March 2014				
Segment revenue	951	656	-	1,607
Service revenues	*890*	*607*	-	*1,497*
Terminal equipment	*49*	*19*	-	*68*
Other	*12*	*30*	-	*42*
Usage related direct costs	(66)	(53)	-	(119)
Income and losses on accounts receivable	3	(27)	-	(24)
Contribution margin I	888	576	-	1,464
Non-usage related direct costs	(134)	(156)	-	(290)
Segment result	754	420	-	1,174
Other income	-	-	40	40
Other operating expenses	(97)	(100)	(442)	(639)
Depreciation, amortisation and impairment of non-current assets	-	-	(325)	(325)
Operating profit	657	320	(727)	250
Capital expenditure	109	32	47	188

Relations with the governing company and its affiliated companies

In the first three months of 2014 there were no transactions among related parties with a significant impact on the financial position and operations of the Group in the given period.

In the first three months of 2014 there were no changes in transactions among related parties which were specified in the annual financial report for 2013 and which had a significant impact on the financial position and operations of the Group in the first three months of 2014.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first three months of 2014 and the governing company and affiliated companies thereof can be classified as follows:

Transactions with related companies

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

In the first three months of 2014 the Group generated total revenue from related companies from international traffic to the amount of HRK 13 million (the first three months of 2013: HRK 14 million), while total costs of international traffic amounted to HRK 14 million (the first three months of 2013: HRK 15 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 6 million in the first three months of 2014 (the first three months of 2013: HRK 3 million).

Compensation of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, 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 the first three months of 2014 the Company paid a total amount of HRK 0.2 million (the first three months of 2013: HRK 0.2 million) to the Members of its Supervisory Board. No loans were granted to the Members of the Supervisory Board.

Compensation to key management personnel

In the first three months of 2014 the total compensation paid to key management personnel of the Group amounted to HRK 10 million (first three months of 2013: HRK 10 million Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

Appendix:

HT d.d. Financial statements (TFI POD Form)

(Note: The Group's TFI POD Form is posted on the Company website www.t.ht.hr/eng/investors)

Income Statement

Position	AOP	Previous period	Previous period	Current period	Current period
		Cummulative	Quarter	Cummulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112 do 113)	**111**	1.598.294.733	1.598.294.733	1.493.764.338	1.493.764.338
1. Rendering of services	**112**	1.584.290.237	1.584.290.237	1.455.380.066	1.455.380.066
2. Other operating income	**113**	14.004.496	14.004.496	38.384.272	38.384.272
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	**114**	1.309.169.770	1.309.169.770	1.242.356.589	1.242.356.589
1. Change in inventories of work in progress	**115**				
2. Material expenses (117 do 119)	**116**	419.950.812	419.950.812	359.280.898	359.280.898
a) Costs of raw materials	**117**	36.702.382	36.702.382	34.936.775	34.936.775
b) Cost of goods sold	**118**	173.664.387	173.664.387	168.836.482	168.836.482
c) Other material expenses	**119**	209.584.043	209.584.043	155.507.641	155.507.641
3. Employee benefits expenses (121 do 123)	**120**	222.152.663	222.152.663	219.368.580	219.368.580
a) Net salaries	**121**	125.174.028	125.174.028	124.594.206	124.594.206
b) Tax and contributions from salary expenses	**122**	67.562.788	67.562.788	65.943.037	65.943.037
c) Contributions on salary	**123**	29.415.847	29.415.847	28.831.337	28.831.337
4. Depreciation and amortisation	**124**	304.454.351	304.454.351	311.733.759	311.733.759
5. Other expenses	**125**	279.564.633	279.564.633	276.113.320	276.113.320
6. Write down of assets (127+128)	**126**	13.959.492	13.959.492	24.238.482	24.238.482
a) non-current assets (except financial assets)	**127**	0	0	0	0
b) current assets (except financial assets)	**128**	13.959.492	13.959.492	24.238.482	24.238.482
7. Provisions	**129**	69.087.819	69.087.819	51.621.550	51.621.550
8. Other operating costs	**130**	0	0	0	0
III. FINANCIAL INCOME (132 do 136)	**131**	19.082.489	19.082.489	14.919.194	14.919.194
1. Interest, foreign exchange differences, dividens and similar income from related parties	**132**	2.300.901	2.300.901	2.282.012	2.282.012
2. Interest, foreign exchange differences, dividens and similar income from third parties	**133**	16.781.203	16.781.203	12.637.182	12.637.182
3. Income from investments in associates and joint ventures	**134**	0	0	0	0
4. Unrealised gains (income) from financial assets	**135**				
5. Other financial income	**136**	385	385	0	0
IV. FINANCIAL EXPENSES (138 do 141)	**137**	12.398.634	12.398.634	16.802.624	16.802.624
1. Interest, foreign exchange differences, dividens and similar income from related parties	**138**	0	0	0	0
2. Interest, foreign exchange differences, dividens and similar income from third parties	**139**	11.162.611	11.162.611	15.235.390	15.235.390
3. Unrealised losses (expenses) from financial assets	**140**	0	0	0	0
4. Other financial expenses	**141**	1.236.023	1.236.023	1.567.234	1.567.234
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	**142**	0	0	0	0
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	**143**	0	0	0	0
VII. EXTRAORDINARY - OTHER INCOME	**144**	0	0	0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	**145**	0	0	0	0
IX. TOTAL INCOME (111+131+144)	**146**	1.617.377.222	1.617.377.222	1.508.683.532	1.508.683.532
X. TOTAL EXPENSES (114+137+143+145)	**147**	1.321.568.404	1.321.568.404	1.259.159.213	1.259.159.213
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	**148**	295.808.818	295.808.818	249.524.319	249.524.319

1. Profit before taxes (146-147)	**149**	295.808.818	295.808.818	249.524.319	249.524.319
2. Loss before taxes (147-146)	**150**	0	0	0	0
XII. TAXATION	**151**	61.190.308	61.190.308	50.867.817	50.867.817
XII. PROFIT OR LOSS FOR THE PERIOD (148-151)	**152**	234.618.510	234.618.510	198.656.502	198.656.502
1. Profit for the period (149-151)	**153**	234.618.510	234.618.510	198.656.502	198.656.502
2. Loss for the period (151-148)	**154**	0	0	0	0
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	**155**	0	0	0	0
2. Attributable to minority interest	**156**	0	0	0	0
STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)					
I. PROFIT OR LOSS FOR THE PERIOD (=152)	**157**	234.618.510	234.618.510	198.656.502	198.656.502
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 TO 165)	**158**	1.297.795	1.297.795	406.652	406.652
1. Exchange differences from international settlement	**159**	0	0	0	0
2. Changes in revaluation reserves of long-term tangible and intangible assets	**160**	0	0	0	0
3. Profit or loss from re-evaluation of financial assets held for sale	**161**	1.297.795	1.297.795	406.652	406.652
4. Profit or loss from cash flow hedging	**162**	0	0	0	0
5. Profit or loss from hedging of foreign investments	**163**	0	0	0	0
6. Share of other comprehensive income/loss from associatied companies	**164**	0	0	0	0
7. Actuarial gains/losses from defined benefit plans	**165**	0	0	0	0
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**166**	0	0	0	0
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 TO 166)	**167**	1.297.795	1.297.795	406.652	406.652
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	**168**	235.916.305	235.916.305	199.063.154	199.063.154
ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)					
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	**169**	0	0	0	0
2. Attributable to minority interest	**170**	0	0	0	0

Balance sheet

Position	AOP	Previous period	Current period
1	2	3	4
ASSETS			
A) RECEIVABELS FOR SUBSCRIBED NOT PAID CAPITAL	**001**	0	0
B) NON-CURRENT ASSETS (003+010+020+029+033)	**002**	7.951.975.641	7.838.618.127
I. INTANGIBLE ASSETS (004 do 009)	**003**	1.145.473.335	1.119.693.232
1. Expenditure for development	**004**	0	0
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	**005**	1.088.302.460	1.086.922.117
3. Goodwill	**006**	0	0
4. Advances for purchase of intangible assets	**007**	0	0
5. Intangible assets in progress	**008**	57.170.875	32.771.115
6. Other intangible assets	**009**	0	0
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	**010**	5.427.481.471	5.319.693.063
1. Land	**011**	65.313.052	65.313.052
2. Buildings	**012**	3.303.491.554	3.274.481.645

3. Plant and equipment	**013**	1.533.533.553	1.523.829.293
4. Tools, working inventory and transportation assets	**014**	98.648.586	92.996.397
5. Biological assets	**015**	0	0
6. Advances for purchase of tangible assets	**016**	3.064.936	3.079.097
7. Tangible assets in progress	**017**	418.923.121	355.581.226
8. Other tangible assets	**018**	4.506.669	4.412.353
9. Investment in real-estate	**019**	0	0
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	**020**	1.196.368.193	1.199.586.191
1. Share in related parties	**021**	866.260.887	866.260.887
2. Loans to related parties	**022**	133.763.612	136.029.828
3. Participating interests (shares)	**023**	0	0
4. Loans to companies with participating interest	**024**	0	0
5. Investments in securities	**025**	190.007.419	190.959.201
6. Loans, deposits, etc.	**026**	6.336.275	6.336.275
7. Other non-current financial assets	**027**	0	0
8. Equity-accounted investments	**028**	0	0
IV. RECEIVABLES (030 do 032)	**029**	124.844.069	144.606.032
1. Receivables from related parties	**030**	0	0
2. Receivables arising from sales on credit	**031**	14.295.124	13.860.609
3. Other receivables	**032**	110.548.945	130.745.423
V. DEFERRED TAX ASSET	**033**	57.808.573	55.039.609
C) CURRENT ASSETS (035+043+050+058)	**034**	4.706.111.182	4.957.233.818
I. INVENTORIES (036 do 042)	**035**	88.724.405	119.777.645
1. Raw materials and supplies	**036**	52.442.785	51.087.231
2. Production in progress	**037**	0	0
3. Finished products	**038**	0	0
4. Merchandise	**039**	36.261.899	68.657.993
5. Advances for inventories	**040**	19.721	32.421
6. Long term assets held for sale	**041**	0	0
7. Biological assets	**042**	0	0
II. RECEIVABLES (044 do 049)	**043**	1.320.366.229	1.283.011.538
1. Receivables from related parties	**044**	25.003.765	25.861.105
2. Receivables from end-customers	**045**	1.053.532.194	967.440.619
3. Receivables from participating parties	**046**	0	0
4. Receivables from employees and members of the company	**047**	0	407.305
5. Receivables from government and other institutions	**048**	210.361.522	265.218.299
6. Other receivables	**049**	31.468.748	24.084.210
III. CURRENT FINANCIAL ASSETS (051 do 057)	**050**	1.334.045.237	499.599.819
1. Share in related parties	**051**	0	0
2. Loans to related parties	**052**	0	0
3. Participating interests (shares)	**053**	0	0
4. Loans to companies with participating interest	**054**	0	0
5. Investments in securities	**055**	382.439.621	383.402.903
6. Loans, deposits, etc.	**056**	951.605.616	116.196.916
7. Other financial assets	**057**	0	0
IV. CASH AND CASH EQUIVALENTS	**058**	1.962.975.311	3.054.844.816
D) PREPAYMENTS AND ACCRUED INCOME	**059**	125.482.885	120.200.521
E) TOTAL ASSETS (001+002+034+059)	**060**	12.783.569.708	12.916.052.466
F) OFF BALANCE SHEET ITEMS	**061**		
EQUITY AND LIABILITIES			

A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	10.820.394.389	11.019.457.543
I. SUBSCRIBED SHARE CAPITAL	**063**	8.188.853.500	8.188.853.500
II. CAPITAL RESERVES	**064**		
III.RESERVES FROM PROFIT (066+067-068+069+070)	**065**	409.056.013	409.056.013
1. Legal reserves	**066**	409.442.675	409.442.675
2. Reserve for own shares	**067**	0	0
3. Treasury shares and shares (deductible items)	**068**	819.304	819.304
4. Statutory reserves	**069**	0	0
5. Other reserves	**070**	432.642	432.642
IV. REVALUATION RESERVES	**071**	-1.151.584	-744.932
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	**072**	792.390.636	2.223.636.460
1. Retained earnings	**073**	792.390.636	2.223.636.460
2. Loss carried forward	**074**	0	0
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	**075**	1.431.245.824	198.656.502
1. Net profit for the period	**076**	1.431.245.824	198.656.502
2. Net loss for the period	**077**	0	0
VII. MINORITY INTEREST	**078**	0	0
B) PROVISIONS (080 do 082)	**079**	132.144.934	167.371.420
1. Provisions for pensions, severance pay and similar libabilities	**080**	69.894.711	110.392.200
2. Provisions for tax liabilities	**081**	0	
3. Other provisions	**082**	62.250.223	56.979.220
C) NON-CURRENT LIABILITIES (084 do 092)	**083**	132.129.733	144.765.165
1. Liabilites to related parties	**084**	0	0
2. Liabilities for loans, deposits, etc.	**085**	0	0
3. Liabilities to banks and other financial institutions	**086**	0	0
4. Liabilities for advances	**087**	0	0
5. Trade payables	**088**	0	0
6. Commitments on securities	**089**	0	0
7. Liabilities to companies with participating interest	**090**	0	0
8. Other non-current liabilities	**091**	129.749.333	142.384.765
9. Deferred tax liabilities	**092**	2.380.400	2.380.400
D) CURRENT LIABILITIES (094 do 105)	**093**	1.582.074.899	1.463.643.715
1. Liabilites to related parties	**094**	58.893.756	35.721.680
2. Liabilities for loans, deposits, etc.	**095**	321.410	226.625
3. Liabilities to banks and other financial institutions	**096**	0	0
4. Liabilities for advances	**097**	1.207.480	1.995.821
5. Trade payables	**098**	1.185.108.139	1.108.886.706
6. Commitments on securities	**099**	0	0
7. Liabilities to companies with participating interest	**100**	0	0
8. Liabilities to emloyees	**101**	118.228.581	129.780.312
9. Taxes, contributions and similar liabilities	**102**	86.899.284	76.891.503
10. Liabilities arising from share in the result	**103**	0	0
11. Liabilities arising from non-current assets held for sale	**104**	0	0
12. Other current liabilities	**105**	131.416.249	110.141.068
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	116.825.753	120.814.623
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	**107**	12.783.569.708	12.916.052.466
G) OFF BALANCE SHEET ITEMS	**108**	0	0
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			

Cash Flow Statement

Position	AOP	Previous period	Current period
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	**001**	295.808.818	249.524.319
2. Depreciation, amortisation and write down	**002**	304.454.351	311.733.759
3. Increase of current liabilities	**003**	0	
4. Decrease of current receivables	**004**	49.290.207	99.551.909
5.Decrease of inventories	**005**	0	
6. Other cash flow increases	**006**	0	
I. Total increase of cash flow from operating activities	**007**	**649.553.376**	**660.809.987**
1. Decrease of current liabilities	**008**	73.149.645	114.442.314
2. Increase of current receivables	**009**	0	
3. Increase of inventories	**010**	20.717.352	31.053.239
4. Other cash flow decreases	**011**	91.960.499	87.880.078
II. Total decrease of cash flow from operating activities	**012**	**185.827.496**	**233.375.631**
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	**013**	**463.725.880**	**427.434.356**
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	**014**	**0**	**0**
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of non-current assets	**015**	13.086.471	89.361
2. Proceeds from sale of non-current financial assets	**016**	605.922	529.130
3. Interest received	**017**	11.695.657	6.623.964
4. Dividend received	**018**	0	
5. Other proceeds from investing activities	**019**	464.039.172	917.871.304
III. Total cash inflows from investing activities	**020**	**489.427.222**	**925.113.758**
1. Purchase of non-current assets	**021**	216.305.803	178.251.002
2. Purchase of non-current financial assets	**022**	75.005.322	
3. Other cash outflows from investing activities	**023**	23.481.971	82.414.666
IV. Total cash outflows from investing activities	**024**	**314.793.095**	**260.665.667**
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	**025**	**174.634.127**	**664.448.091**
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	**026**	**0**	**0**
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issue of equity securities and debt securities	**027**	0	0
2. Proceeds from loans and borrowings	**028**	0	0
3. Other proceeds from financing activities	**029**	0	0
V. Total cash inflows from financing activities	**030**	**0**	**0**
1. Repayment of loans and bonds	**031**	0	0
2. Dividends paid	**032**	6.503	12.942
3. Repayment of finance lease	**033**	0	0
4. Purchase of treasury shares	**034**	0	
5. Other cash outflows from financing activities	**035**	0	0
VI. Total cash outflows from financing activities	**036**	**6.503**	**12.942**
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	**037**	**0**	**0**
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	**038**	**6.503**	**12.942**
Total increases of cash flows	**039**	**638.353.503**	**1.091.869.505**
Total decreases of cash flows	**040**	**0**	**0**
Cash and cash equivalents at the beginning of period	**041**	3.103.603.253	1.962.975.311
Increase of cash and cash equivalents	**042**	**638.353.503**	**1.091.869.505**

Decrease of cash and cash equivalents	**043**	**0**	**0**
Cash and cash equivalents at the end of period	**044**	**3.741.956.756**	**3.054.844.816**

Statement of changes in equity

Position	AOP	Previous year	Current year
1	**2**	**3**	**4**
1. Subscribed share capital	**001**	8.188.853.500	8.188.853.500
2. Capital reserves	**002**	0	0
3. Reserves from profit	**003**	409.056.013	409.056.013
4. Retained earnings or loss carried forward	**004**	792.390.636	2.223.636.460
5. Net profit or loss for the period	**005**	1.431.245.824	198.656.502
6. Revaluation of tangible assets	**006**	0	0
7. Revaluation of intangible assets	**007**	0	0
8. Revaluation of available for sale assets	**008**	-1.151.584	-744.932
9. Other revaliuation	**009**	0	0
10. Total equity and reserves (AOP 001 to 009)	**010**	10.820.394.389	11.019.457.543
11. Foreign exchenge differences ffrom foreign investments	**011**	0	0
12. Current and deferred taxes	**012**	-3.541.800	0
13. Cash flow hedge	**013**	0	0
14. Change of accounting policies	**014**	17.709.000	0
15. Correction of significant mistakes of prior period	**015**	0	0
16. Other changes	**016**	0	0
17.Total increase or decrease of equity (AOP 011 to 016)	**017**	14.167.200	0

Notes to the condensed financial statements
For period ended 31 March 2014

Basis of preparation

The condensed financial statements of 31 March 2014 and for the three months then ended, have been prepared using accounting policies consistent with International Financial Reporting Standards.

Significant Accounting Policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in the preparation of the Company's financial statements for the year ended 31 December 2013.

Segment information

Business reporting format is determined to be Residential, Business and Network and Support Function segments as the Company'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 Company's geographical disclosures are based on the geographical location of its customers.

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

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

Period ended 31 March 2013	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Total HRK millions
Segment revenue	937	648	-	1,585
Service revenues, restated	*890*	*585*	-	*1,475*
Terminal equipment, restated	*34*	*17*	-	*51*
Other, restated	*13*	*46*	-	*59*
Usage related direct costs	(72)	(74)	-	(146)
Income and losses on accounts receivable	(5)	(7)	-	(12)
Contribution margin I, restated	860	567	-	1,427
Non-usage related direct costs, restated	(150)	(82)	-	(232)
Segment result, restated	710	485	-	1,195
Other income, restated	-	-	13	13
Other operating expenses, restated	(89)	(71)	(455)	(615)
Depreciation, amortisation and impairment of non-current assets, restated	-	-	(304)	(304)

Operating profit, restated	621	414	(746)	289
Capital expenditure	70	34	112	216

Period ended 31 March 2014				
Segment revenue	899	556	-	1,455
Service revenues	*838*	*507*	-	*1,345*
Terminal equipment	*49*	*19*	-	*68*
Other	*12*	*30*	-	*42*
Usage related direct costs	(62)	(34)	-	(96)
Income and losses on accounts receivable	4	(27)	-	(23)
Contribution margin I	841	495	-	1,336
Non-usage related direct costs	(128)	(92)	-	(220)
Segment result	713	403	-	1,116
Other income	-	-	38	38
Other operating expenses	(88)	(66)	(438)	(592)
Depreciation, amortisation and impairment of non-current assets	-	-	(311)	(311)
Operating profit	625	337	(711)	251
Capital expenditure	100	31	47	178

Relations with the governing company and its affiliated companies

In the first three months of 2014 there were no transactions among related parties with a significant impact on the financial position and operations of the Company in the given period.

In the first three months of 2014 there were no changes in transactions among related parties which were specified in the annual financial report for 2013 and which had a significant impact on the financial position and operations of the Company in the first three months of 2014.

Business relations transacted between HT d.d. in the first three months of 2014 and the governing company and affiliated companies thereof can be classified as follows:

Transactions with related companies

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

In the first three months of 2014 the Company generated total revenue from related companies from international traffic to the amount of HRK 13 million (the three months of 2013: HRK 14 million), while total costs of international traffic amounted to HRK 14 million (the first three months of 2013: HRK 15 million).

DTAG companies provided technical assistance to the Company in the amount of HRK 6 million in the first three months of 2014 (the first three months of 2013: HRK 3 million).

Compensation of the Supervisory Board

Please see note on page 30 under the same title.

Compensation to key management personnel

In the first three months of 2014 the total compensation paid to key management personnel of the Company amounted to HRK 6.5 million (first three months of 2013: HRK 6.4 million Key management personnel include members of the Management Board and the operating directors of the Company.

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

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

The management report for the first three months of 2014 contains a true presentation of development and results of operations and position of the Group, with description of significant risks and uncertainties for the Group as a whole.

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

Mr. Norbert Hentges, Member of the Management Board and Chief Operating Officer

Ms. Irena Jolić Šimović, Member of the Management Board and Chief Human Resources Officer

Ms. Nataša Rapaić, Member of the Management Board and Chief Operating Officer Residential

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

Zagreb, 30 April 2014

*Until the appointment of the missing Members of the Management Board, he performs the managing tasks falling within the scope of competence of the Member of the Management Board and CFO, and the Member of the Management Board and CTIO.

8. Presentation of information

Unless the context otherwise requires, references in this publication to ‘‘T-HT Group’’ or ‘‘the Group’’ or "T-HT" are to the Company Hrvatski Telekom d.d., together with its subsidiaries.
References to ‘‘HT’’ or the ‘‘Company’’ are to the Company Hrvatski Telekom d.d. Following the merger of T-Mobile d.o.o. with Hrvatski Telekom (HT d.d.), effective 1 January 2010, the Group is now organized into two business units: Business and Residential.

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

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

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

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

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

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

References in this publication to ‘‘Agency’’ are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.

9. Disclaimer

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