



Zagreb – 30 July 2015

Hrvatski Telekom Results for the first six months ended 30 June 2015

Hrvatski Telekom: Profitability stable, revenue and EBITDA above the last year's level

- Revenue increased to HRK 3.3 billion in the first half of 2015
- Increased net profit amounts to HRK 406 million

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

Hrvatski Telekom's first-half performance was characterized by stabilization of all its key financial indicators, reversing the trends seen in previous years. In the first six months, HT revenue grew by 0.5 percent year on year to total HRK 3.3 billion. The first two quarters were also characterised by growth in earnings before interest, taxation, depreciation and amortization (EBITDA before exceptional items) of 2.1 percent in comparison to H1 2014. EBITDA totaled HRK 1.3 billion, for an EBITDA margin of 39.6 percent. Net profit for the first half amounted to HRK 406 million, an increase of 1.2 percent over H1 2014.

Increased investment activities focus on development of innovative services and high speed Internet access infrastructure

During the first half of 2015, Hrvatski Telekom's operational performance also featured growth in investment, which increased by 12.3 percent in comparison to H1 2014. By the end of 2015, investment is expected to exceed HRK 1.3 billion, marking a 25 percent increase over 2014.

Investment has been primarily focused on the development of mobile and fixed line infrastructure, increased broadband access capacity and the completion of the IP transformation process. By the end of June 2015, 92 percent of customers had been migrated to IP technology.

Increased investment also enabled the buildout of 4G network coverage in H1 2015, with HT providing access speeds of up to 150 Mbps to 54 percent of the population. The Group continues to make progress in expanding its 4G network coverage. As testament to the improvements the Group has already undertaken, in July HT was awarded the P3 "Best in test" certificate. This is an internationally recognized endorsement of network quality, which confirms that HT provides the fastest mobile Internet and the best mobile voice services amongst all networks in Croatia.

Comment on the Group's results for the first six months of 2015, **President of Management Board of Hrvatski Telekom, Davor Tomašković**, said:

"Despite a decline in the overall telecommunications market, the first half of the year was characterized by the stabilization of all Hrvatski Telekom's key financial indicators, which reversed the downward trends seen in previous years."

“This year, we have significantly increased our investment, which we are primarily directing towards the development of a high speed Internet infrastructure. HT is the technology leader on the Croatian market, and this enables us to provide market-leading customer experience and the highest-quality, fastest 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)20 7192 8000

Conference ID

90367791

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

International Dial In

+44 (0)1452 550 000

Conference ID

90367791

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

1. Review

1.1 Introduction

HT Group continues to make good progress despite ongoing pressures from competition, regulation and macroeconomic environment

HT Group maintained its leading position in the Croatian telecommunications market across all business segments in first six months of 2015 despite competitive pressure and economic stagnation in the domestic economy whilst delivering an improvement in revenue and EBITDA trends in comparison with H1 2014.

1.2 Market overview

Fixed-line

Fixed-to-mobile voice line and traffic substitution has had a significant impact on fixed-line connections and the trend in revenues over the past two years. According to the Agency's Q1 2015 report¹, the number of fixed line minutes declined by 12.1% in Q1 2015 compared to Q1 2014.

HT Group nevertheless has successfully retained its leading position in the fixed line market, reflecting the Group's continuing dedication to high-quality services and improved offers.

Mobile telecommunications

The estimated mobile SIM penetration rate of 113.9% at the end of June 2015 indicates further mobile market SIM contraction trend (3 percentage points lower than reported at the end of June 2014). HT's estimated share of total mobile customers remained stable at around 46.5% at the end of June 2015.

The mobile market has been characterised by the consistent growth in the contract customer base, further slowing of mobile MOU and accelerating demand for data, triggered by the roll-out of 4G coverage. As video and music services proliferate, customers are increasingly using their smartphones and tablets for entertainment, work and social interaction. These trends are impacting trends in mobile voice and messaging services.

Total Croatian mobile market minutes of use (MOU) grew 3.3% yoy in Q1 2015. This rate is lower than reported for Q1 2014 (8.6%). The declining trend in SMSs has continued with a reported annual decrease of 10.1% in Q1 2015².

¹ Source: Croatian Post and Electronic Communications Agency

² Source: Croatian Post and Electronic Communications Agency

Internet and PayTV

In Croatia there were 954,965 fixed broadband connections at the end of Q1 2015. The Croatian fixed broadband market is still growing, with year on year growth of 2.4% in Q1 2015.

The HT Group continues to focus on the further development of the network infrastructure, increasing broadband access capacity and availability to maintain its position as the largest fixed broadband operator in Croatia. HT's fiber optic Ultra MAX packages further reinforce its leading position in Croatia's broadband market. The Ultra MAX packages are FTTH (Fiber to the Home) -based and offer 10 times higher speed than the MAX packages for residential customers.

In Q2 2015 HT Group had 606,357 broadband access lines.

The Croatian Pay TV market is a highly competitive and growing market. The Pay TV market grew by 4.7% in Q1 2015 reaching 746,956 customers⁴. HT Group's leading market position remained intact thanks to its IPTV service MAXtv, which has the highest share of the IPTV market in Q1 2015.

MAXtv enjoys a reputation for being technologically powerful, with advanced, family friendly TV services, including HD content.

Further consolidation decision in the Croatian market was seen in June 2015 with announcement that the Telekom Austria Group has agreed to acquire Amis, an alternative telecommunication service provider with FTTH (fiber to the home) infrastructure. This acquisition is fully in line with Vipnet's convergence strategy as an additional offering to its fixed-line business.

Data

HT continues to maintain its leading position in the data market, which 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 Q2 2015 with a major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 90,909 at the end of June 2015 (an increase of 51.8% compared to the same period of 2014). Due to high churn and migration to broadband services, the number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing, and this has resulted in 161,581 ULL access and 109,347 WLRs at the end of the period.

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

ICT

According to IDC Adriatics³, the Croatian ICT market grew by 4.1% in 2014. HT Group improved its position in the ICT market, demonstrating faster growth than the overall market. IDC expects further market growth of 2.9% in 2015.

1.3 Economic background

Weak positive trends in macroeconomic environment starting to emerge in 2015

The Croatian economy showed long-awaited signs of growth following six years of recession, with a 0.5% rise in GDP in Q1 2015 as a result of growth in exports and personal consumption. This growth trend, albeit weak, in the macroeconomic environment is expected to continue in Q2 2015⁴.

Favourable trends were also recorded in the labour market in Q2 2015. The unemployment rate in May 2015 decreased to 17.1%, which compared to the same month in 2014, represents a decrease by 2.5 percentage points⁵. Although these positive trends are encouraging, it is still too soon to call a sustainable recovery in the labour market.

Private consumption grew by 0.3% in real terms in Q1 2015 vs. Q1 2014 as a result of higher disposable net income due to tax reforms introduced at the beginning of 2015. Average net income reported for April 2015 amounted at HRK 5,676, which is 3.4% higher in real terms² over the previous year.

Inflation in Croatia, measured by the Consumer Prices Index (CPI) in May 2015, remained at the same level as in May 2014.² Deflation is expected to emerge during the remainder of 2015.

1.4 Regulatory environment

Deregulation of MTRs/FTRs outside EU/EEA

According to a decision by HAKOM on 30 March, 2015, Mobile and Fixed Termination Rates (MTR/FTR) remain regulated with prices that are applicable as of 1 January 2015.

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

Regulation of Fixed Origination Rates

On 30 March, 2015, HAKOM announced its decision on regulated the Fixed Origination Rates (FOR). Regulation of FOR is applicable for interconnection on the local and regional level, while

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

⁴ Sources: Bulletin No. 215 prepared by Croatian National Bank, June 2015

⁵ Source: Central Bureau of Statistics

interconnection on the national level is excluded from regulation. New regulated FOR prices apply as of 1 May, 2015 (43% decrease).

IP interconnection

On 28 May, 2015, HAKOM passed a decision on defining technical and regulatory conditions for IP interconnection⁶. IP interconnection must be completed upon request by an alternative operator under prices applicable for PSTN/TDM interconnection.

Following this decision by HAKOM, HT published an amended fixed reference interconnection offer on 12 June, 2015, which came into force on 12 July 12, 2015.

Wholesale leased lines markets analyses

Following public consultation, on 17 June, 2015 HAKOM issued draft decisions on the analysis of:

- wholesale trunk segment of leased lines⁷, which is subject to deregulation and
- wholesale high-quality access provided at a fixed location⁸, which is subject to regulation.

According to HAKOM's draft decision, HT in substance remains an operator with significant market power on the leased line market with the currently applicable remedies⁹.

The draft decision has been communicated to the European Commission (EC) and its response is expected in July 2015.

Market analysis of wholesale access markets

After public consultation and prior notification to European Commission (28 May, 2015), HAKOM on 9 July, 2015 passed its final decisions on the analysis of wholesale local access provided at a fixed location (market 3a) and wholesale central access provided at a fixed location for mass-market products (market 3b).

According to HAKOM's decision, HT and its subsidiaries, Iskon and Optima, remain operators with significant market power on the relevant markets with currently applicable remedies¹⁰. Additionally, this decision introduced the regulatory obligation of the MSQ test on retail markets.

Deregulation of retail Broadband/IPTV market

After public consultations and prior notification to the European Commission (28 May, 2015), HAKOM on 9 July, 2015, passed its final decision on deregulation of the retail broadband and closely

⁶ SIP signalization, message bodies, supported option tags of SIP extensions, identities format, address parameters, signalling mode, media session managements, codec's, domains, routing, billing, testing, QoS, IP interconnection costs, interconnection links, deadline for IP interconnection realization

⁷ In accordance with HAKOM's proposal wholesale trunk segment of leased lines market includes leased lines (Ethernet, xWDM and traditional digital (SDH, PDH, (S)HDSL) leased lines relations) between 16 cities in Croatia where at least two operators beside HT (or HT subsidiary) provides wholesale leased lines.

⁸ All leased lines relations (Ethernet, xWDM and traditional digital (SDH, PDH, (S)HDSL) leased lines relations) other than wholesale trunk segment of leased lines.

⁹ Regulatory obligations of access to and use of special network facilities, non-discrimination, transparency, price control and cost accounting obligation, accounting separation.

¹⁰ HT regulatory obligations of access, non-discrimination, transparency, price control, cost accounting and accounting separation. Cost accounting and accounting separation obligations are applicable to Iskon and Optima.

connected market of transferring TV channels payable by the customers applicable to HT and its subsidiaries Iskon and Optima.

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

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

Decision on the decrease of par-fiscal fees

In April 2015, the Government of the Republic of Croatia brought a general decision on the decrease of par-fiscal fees for 2015/2016 with the overall gain to reduce fees with a financial effect of around HRK 330 million (EUR 43.5 million) for 2015 (0.1% GDP 2014) and around HRK 330 million (EUR 43.5 million) for 2016 (0.1% GDP 2014). Currently the issue of which fees will be defined as par-fiscal fee and are subject to decrease it under discussion with the Government.

Broadband strategy 2016-2020 consultation process

On 4 July 2015 the Ministry of Maritime Affairs, Transport and Infrastructure opened public consultation on the draft Broadband Strategy in Croatia 2016-2020. Public consultation will continue until 1 September 2015. HT actively participated in the process of drafting the broadband strategy through the Croatian Employers Association (HUP). The issue of financing and the role of private sector in realization of DAE goals are not covered by the document.

1.5 Changes in reporting

In 2014, the Croatian Competition Agency conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regard to the management and control of Optima Telekom, including the implementation of a so-called "Chinese wall" between Optima Telekom's and HT employees involved in Optima Telekom's business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Respectively, only financial statements are consolidated while due to limited access to Optima Telekom's information, non financial KPIs are not consolidated into Group results.

1.6 Summary of key financial indicators

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Revenue	1,680	1,686	0.3%	3,288	3,304	0.5%
EBITDA before exceptional items	651	685	5.3%	1,280	1,307	2.1%
Exceptional items	36	8	-78.2%	90	81	-10.3%
EBITDA after exceptional items	615	677	10.1%	1,190	1,226	3.0%
EBIT (Operating profit)	280	326	16.4%	530	517	-2.5%

Net profit	203	255	25.8%	401	406	1.2%
EBITDA margin before exceptional items	38.7%	40.6%	1.9 p.p.	38.9%	39.6%	0.6 p.p.
EBITDA margin after exceptional items	36.6%	40.2%	3.6 p.p.	36.2%	37.1%	0.9 p.p.
EBIT margin	16.7%	19.3%	2.7 p.p.	16.1%	15.6%	-0.5 p.p.
Net profit margin	12.1%	15.1%	3.1 p.p.	12.2%	12.3%	0.1 p.p.

in HRK million	At 31 Dec 2014	At 30 Jun 2015	change
Cash and cash equivalents	2,192	2,674	22.0%
Total assets	13,835	13,138	-5.0%
Total issued capital and reserves	11,235	11,051	-1.6%

in HRK million	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Net cash flow from operating activities	410	393	-4.3%	900	813	-9.7%

RESIDENTIAL SEGMENT

in HRK million	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Revenue	982	917	-6.6%	1,933	1,838	-4.9%
Contribution to EBITDA before EI	664	653	-1.6%	1,320	1,293	-2.1%

BUSINESS SEGMENT

in HRK million	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Revenue	698	656	-6.0%	1,355	1,249	-7.8%
Contribution to EBITDA before EI	365	340	-7.0%	684	636	-7.0%

NETWORK & SUPPORT FUNCTIONS

in HRK million	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Contribution to EBITDA before EI	-378	-366	3.2%	-724	-733	-1.3%

SEGMENT OPTIMA TELEKOM*

in HRK million	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Revenue	0	113	-	0	218	-
Contribution to EBITDA before EI	0	58	-	0	111	-

*Note: Segment Optima consolidated does not include full Optima consolidation impact since internal transactions by HT Inc are included in business and residential segments. Including the impact of internal transactions, net Optima contribution to HT Group revenue amounts HRK 151 million and to EBITDA is HRK 49 million in H1 2015.

1.7 Exchange rate information

	Kuna per EURO		Kuna per U.S dollar	
	Average	Period end	Average	Period end
Six months to 30 Jun 2014	7.62285	7.57137	5.56033	5.56228
Six months to 30 Jun 2015	7.62583	7.58066	6.84113	6.82942

2. Business Review

Key operational data	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Mobile subscribers in 000						
Number of subscribers	2,308	2,241	-2.9%	2,308	2,241	-2.9%
- Residential	1,833	1,760	-4.0%	1,833	1,760	-4.0%
- Business	475	481	1.3%	475	481	1.3%
Number of postpaid subscribers	1,090	1,105	1.4%	1,090	1,105	1.4%
Number of prepaid subscribers	1,218	1,136	-6.8%	1,218	1,136	-6.8%
Minutes of use (MOU) per average subscriber	193	200	4.0%	186	194	4.1%
- Residential	175	182	4.2%	169	177	4.5%
- Business	260	266	2.0%	250	255	1.8%
Blended ARPU (monthly average for the period in HRK)	81	76	-6.2%	79	74	-5.9%
- Residential	71	66	-6.5%	69	65	-6.0%
- Business	118	110	-7.0%	117	109	-7.3%
Blended non-voice ARPU (monthly average for the period in HRK)	34	35	5.6%	33	35	3.9%
SAC per gross add in HRK	146	91	-37.6%	142	97	-31.6%
Churn rate (%)	2.3	2.0	-0.3 p.p.	2.6	2.3	-0.3 p.p.
Penetration (%) ¹⁾	117	114	-2.9 p.p.	117	114	-2.9 p.p.
Market share of subscribers (%) ¹⁾	46	46	0.2 p.p.	46	46	0.2 p.p.
Data subscribers (in 000)	1,368	1,451	6.1%	1,368	1,451	6.1%
Smartphone customers (%) ²⁾	34	43	8.1 p.p.	34	43	8.1 p.p.
Smartphones sold (%) ³⁾	73	76	3.0 p.p.	73	76	3.0 p.p.

1) Source: published VIPnet's quarterly report for Q2 2015 and Tele2's quarterly report for Q2 2015.

2) Number of customers using a smartphone handsets in total number of mobile customers

3) Number of smartphones sold in total number of handsets sold (postpaid only)

Key operational data	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Fixed mainlines in 000						
Fixed mainlines - retail ¹⁾	1,086	1,012	-6.8%	1,086	1,012	-6.8%
- Residential	940	886	-5.7%	940	886	-5.7%
- Business	146	126	-14.1%	146	126	-14.1%
Fixed mainlines - wholesale (WLR)	120	109	-8.7%	120	109	-8.7%
- Residential	104	98	-6.0%	104	98	-6.0%
- Business	16	11	-27.0%	16	11	-27.0%
Total Traffic (mill. of minutes) ²⁾	392	325	-17.2%	819	678	-17.2%
- Residential	321	274	-14.6%	667	572	-14.3%
- Business	71	51	-28.7%	152	107	-29.9%
ARPA voice per access (monthly average for the period in HRK) ³⁾	96	88	-7.9%	95	89	-7.1%
- Residential	85	79	-7.0%	84	80	-5.6%
- Business	166	153	-7.5%	166	152	-8.1%
IP mainlines/customers in 000						
Broadband access lines - retail ⁴⁾	621	606	-2.3%	621	606	-2.3%
- Residential	516	506	-1.9%	516	506	-1.9%
- Business	104	100	-4.2%	104	100	-4.2%
Broadband access lines - wholesale ⁵⁾	60	91	51.8%	60	91	51.8%
- Business	60	91	51.8%	60	91	51.8%
TV customers	394	387	-1.7%	394	387	-1.7%
- Residential	371	364	-1.9%	371	364	-1.9%
- Business	23	23	0.1%	23	23	0.1%
thereof IPTV	337	322	-4.5%	337	322	-4.5%
- Residential	316	302	-4.6%	316	302	-4.6%
- Business	21	20	-2.3%	21	20	-2.3%
thereof Cable TV	6	6	-0.1%	6	6	-0.1%
- Residential	6	6	-0.1%	6	6	-0.1%
- Business	0	0	0.0%	0	0	0.0%
thereof Satellite TV	50	59	16.5%	50	59	16.5%
- Residential	48	56	16.1%	48	56	16.1%
- Business	2	2	25.9%	2	2	25.9%
Fixed-line customers	2	2	8.8%	2	2	8.8%
VPN connection points	5	5	11.0%	5	5	11.0%
Broadband retail ARPA (monthly average for the period in HRK)	126	127	0.8%	126	126	0.5%
- Residential	124	125	0.3%	124	124	-0.1%
- Business	136	141	3.6%	134	139	3.8%
TV ARPU	81	81	0.5%	80	81	0.5%

(monthly average for the period in HRK)						
- Residential	80	80	0.0%	79	79	0.1%
- Business	97	103	6.3%	96	100	4.6%
Data lines in 000						
Total data lines	5	5	6.6%	5	5	6.6%
Wholesale customers in 000						
CPS (Carrier Pre-Selection)	17	13	-24.8%	17	13	-24.8%
NP (Number portability) users/number	739	848	14.8%	739	848	14.8%
ULL (Unbundled Local Loop)	171	162	-5.6%	171	162	-5.6%

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

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

³⁾ Payphones excluded

⁴⁾ Includes ADSL, FTTH and Naked DSL

⁵⁾ Includes Naked Bitstream + Bitstream

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

MAJOR ACHIEVEMENTS

FINANCIAL

- H1 2015 revenue was HRK 17 million, or 0.5%, higher than H1 2014 (excluding Optima Telekom, revenues declined by HRK 134 million, or 4.1%, mainly driven by voice revenue). Excluding the consolidation of Optima, the revenue decline slowed from the 5.2% fall reported in H1 2014.
- EBITDA before exceptional items was 2.1% higher than the previous year, driven by the Optima contribution (HRK 49 million) and lower operating expenses. Excluding Optima, the trend improved – with a fall yoy of 1.8% in H1 2015 compared to a yoy decline of 10.0% in H1 2014.
- Capex rose by 12.3% owing to the focus on further development of network infrastructure, broadband access and IP transformation to secure business continuity and long-term sustainability of HT's market position.

STRATEGIC

- The strategic HORIZONT program is developing in line with expectations. Initial projects in Phase 1 have been completed (indirect opex and workforce revitalization), with others continuing to make progress (network transformation, portfolio repositioning and enhanced

customer experience). Phase 2 projects have now been initiated (capex strategy, HR Strategy and IT transformation).

- HT has been incorporated into the PAN IP DT Group program – targeting a transition from Natco-Centric to integrated pan-European service production. The first pan-European service - Cloud VPN - has been developed by HT experts and launched simultaneously in three countries: Croatia, Hungary and Slovakia.

OPERATIONAL

- In May HT presented new subscription plans – the Najbolje tariffs - which are designed to suit customers' needs and offer a range of enhanced benefits (4G speeds and additional services included in tariffs).
- The prioritisation of network rollout is set: marketing activities and strategy are now in place – 4G campaign has been launched with up to 150Mbps speed and further promotion of Ultra MAX packages.
- HT was awarded a P3 “Best in Test” certificate, an internationally accepted proof of network quality for in June 2015.

Mobile telecommunications

The mobile customer base decreased by 2.9%, from 2,308,000 customers in H1 2014 to 2,241,000 customers in H1 2015, mainly as a result of aggressively competitive offers on the market and a decrease of customers with double SIM cards due to the continuing trend of favourable flat and cross net offers.

The number of postpaid customers was 1.4% higher than in H1 2014, in both the residential (up 1.7%) and business (up 1.1%) segments. This was the result of the promotion of successful and attractive tariffs and handsets as well as Mobile Net offers.

At the beginning of May, HT launched new subscription plans - Najbolje tariffs - which are designed to suit all HT customers' needs and offer a range of enhanced benefits (4G speed and additional services included in tariffs). The launch of Najbolje tariffs was followed by a new media campaign with the strapline: *“ISPLATI SE IMATI NAJBRŽU MREŽU I NOVE, NAJBOLJE TARIFE”* (It is worth having the fastest network and the newest, best tariffs). 4G/LTE smartphones and tablets like Samsung Galaxy Tab4 10.1 LTE provide the ideal platform for enjoying the fastest Internet access speeds of up to 150 Mbps that are available within the Najbolje Mobile net tariffs. Furthermore, within Najbolje tariffs, customers can opt for additional services like MAXtv To Go, Navigation or Road Aid free of charge.

In mid-February HT doubled the maximum mobile Internet speed in its 4G mobile network from 75 Mbps to 150 Mbps and this is now accessible to a considerable number of Croatian residents. The doubling of the speed offers customers numerous new services related to live TV, HD video streaming and online gaming. HT presented its new 4G LTE network speed at an event held in February on Cvjetni Square in Zagreb and has since continued the expansion and intensive development of 4G network.

In April HT launched sales of the Samsung Galaxy S6 and Samsung Galaxy S6 Edge, which were presented in March at the Mobile World Congress 2015 in Barcelona.

The number of prepaid customers was 6.8% lower than in H1 2014 due to strong competition and the overall decline in the prepaid market due to the consistent growth of contract customers. On-going MNP and retention efforts in the prepaid segment as well as a focus on providing additional value are being undertaken to mitigate this on-going decline.

New redefined T prepaid tariffs and options were launched, introducing three new options and the Internet “Dan 4G” product. HT has also designed a special offer for tourists this summer: a package offering unlimited surfing at 4G speeds in Croatia for HRK 85.

A new media campaign was launched for the Simpa “Tjedna porcija” option – which provides 500 minutes, 500 messages and 500 megabytes at a very affordable price (HRK 17.50 per week). This offer was further enhanced by the provision of the 4G smartphone Sony Xperia E4g.

Bonbon continued to offer value, with a media campaign based on discounts on the L and XL packages. Among a number of bonbon benefits, new postpaid users are able to access 1,000 minutes and 1,000 SMS until year 2020 and can set their spending limit according to their own personal requirements.

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

24mobi, the first media virtual network in this part of Europe which HT launched in May 2014 together with 24sata daily, continued with promotional offers for all new and existing customers, offering double the amount of minutes, messages and megabytes in all Ninja options.

The free-of-charge service Kupon2go introduced in mid-December 2014, which sends users text messages informing them about sales and discounts at stores near their location, was further improved with an increased number of partnerships.

HT also continued the further promotion of its value added music service Deezer through sponsorship of The Voice, a TV show presented on national television in Q1 2015.

Minutes of usage per average customer in H1 2015 increased by 4.1% compared to the same period last year due to the introduction of flat offers and bundles with a high volume of minutes in postpaid and prepaid tariffs, in line with overall market trends.

Blended ARPU decreased by 5.9% yoy as a result of a highly competitive market driven by a plethora of attractive offers for customers. Croatia’s difficult economic situation and further EU regulations on roaming prices further impacted ARPU.

In response, in an effort to reverse the current trend and stimulate market recovery, HT launched its latest mobile price premium tariffs - “Najbolje”.

Fixed line

At the end of June 2015, total fixed access mainlines of 1,012,000 were 6.8% lower yoy. The decline, seen in both segments, was driven by the broader telecommunication market trend of fixed to mobile and IP substitution, regulation and enforced competition. Nevertheless, HT continues with a range of initiatives and activities designed to prevent churn.

A promotional offer for fixed line services was introduced offering phone connection for HRK 1 with 24 MCD accompanied by new fixed line tariffs - Halo Non Stop.

Fixed telephony users generated 678 million minutes in H1 2015. That was 17.2% lower than in the same period last year as a result of a shrinking customer base and fixed to mobile substitution.

Fixed voice ARPA decreased by 7.1% yoy, as a result of the general market trends outlined above.

Internet

The TV customer base decreased by 1.7% to 387,000 customers in June 2015 from 394,000 customers in June 2014 as a result of aggressively competitive bundled offers available on the market.

H1 2015 TV ARPU was 0.5% higher yoy. This was result of continuous service and program offer improvements driven by premium content (e.g. additional program packages and video on demand) and enriched exclusive TV content with a new program - Arena Sport 5 - and HBO premium TV packages.

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

Satellite TV, which is an extension of classical IPTV service, continues to grow with continuously improved offers and is expected to contribute significantly to the overall success of TV services, with an increase in customers of 16.5% over H1 2014. Satellite TV also continued a range of promotions, offering 50% discounts on Basic or Basic Extra package monthly fee for first nine months or one month of using additional packages free of charge (HBO & Cinemax package and Sport Plus Package) whilst the promotion was running.

HT also continued to promote its converged and mobile/fixed initiatives, including MAXobitelj, which was further improved to offer more benefits including a favourable mobile tariff, more mobile Internet and high end smartphones and tablets.

The broadband retail customer base was 2.3% lower yoy, falling to 606,000, due to stronger competition and aggressively priced offers in the market.

At the same time, broadband retail ARPA in H1 2015 was 0.5% higher yoy. Business ARPA increased by 3.8% due to customers taking bundles and higher speeds. Residential ARPA was in line with H1 2014 at the level of HRK 124.

HT continues to promote its MAX2/MAX3 packages and Ultra MAX packages on FTTH accompanied by attractive options included in the price and smartphone and tablet offers such as the Samsung Galaxy Ace 4 and Samsung Galaxy Tab4 10.1 LTE. These packages are based on FTTH technology, which enables 10 times higher speed than the standard ADSL.

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

Data

The number of data lines in H1 2015 was 6.6% higher yoy, due to an increase in IP data lines. Traditional data lines have been decreasing since HT started actively promoting migration to IP based products.

Wholesale

In H1 2015 there were 162,000 active ULL lines, down 5.6% yoy. The ULL market has decreased due to the higher focus of alternative operators on broadband services. Broadband wholesale access lines (DSL and naked DSL lines) rose to 91,000, or 51.8% higher than H1 2014.

The number of WLR lines fell to 109,000 compared to 120,000 in H1 2014 as a result of the declining voice market.

As a consequence of the WLR offer, the number of “pure” CPS customers fell to 13,000 in H1 2015, down 24.8% yoy.

In H1 2015 848,000 numbers were ported from HT’s fixed network to other fixed networks, up 14.8% from H1 2014. The growth in ported numbers is mainly connected with the growth of NBSA services.

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

Visitor roaming services were an important source of international wholesale revenue in H1 2015. Growth in usage continued in 2015 both from foreign visitors using the HT mobile network, and by HT retail users abroad. Visitors generated 18.1% more voice originating minutes and 141.0 % more data traffic than in the same period last year. At the same time, on the wholesale cost side, HT's mobile customers generated 24.5% more roaming originated voice traffic in foreign countries and 163.9% more data traffic compared to H1 2014.

Total capacity of data and IP services sold to foreign operators increased by 29.3% contributing to wholesale international revenue.

A third significant contributor to wholesale international revenue is the termination and transit of international voice traffic. Total international voice traffic volume terminated into the HT mobile network increased by 25.5% compared to H1 2014, while international traffic into the HT fixed network decreased by 27.7%. Due to the fact that HAKOM deregulated the price of termination of international voice traffic originated in non-EU/EEA countries into Croatian fixed and mobile networks, HT, as well as other telecom operators in Croatia, has increased termination rates for such traffic, resulting in revenue increase in that category.

ICT

Continuous growth in all ICT portfolio segments driven by HT Group's strategic focus in the area of Cloud and Managed Solutions was negatively impacted and partially mitigated by seasonality in project initiation in H1 2015.

The strongest growth in the Group was in the area of customized ICT solutions, IP communication and direct banking solutions projects.

The ICT Marketplace portfolio was extended with the addition of a new service in the Cloud segment - Maxi fiscal cash register - while the solutions portfolio was extended with the inclusion of ICT managed LAN/WiFi solutions.

3. Group financial performance

3.1 Revenue

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Voice revenue	693	584	-15.7%	1,360	1,152	-15.3%
Non voice revenue	711	685	-3.7%	1,413	1,346	-4.8%
Other service revenue ¹⁾	168	176	4.9%	312	322	3.5%
Terminal equipment	77	56	-27.8%	145	128	-12.1%
Miscellaneous ¹⁾	30	185	505.8%	58	357	516.3%
Revenue	1,680	1,686	0.3%	3,288	3,304	0.5%

¹⁾ In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -31 million) to Other service revenue (HRK +31 million) was made for H1 2014.

Total consolidated revenue increased by 0.5% to HRK 3,304 million in H1 2015 from HRK 3,288 million in H1 2014. The increase was driven by higher miscellaneous revenue (HRK 299 million) and other service revenue (HRK 11 million), but partially offset by a decrease in voice revenue (HRK 208 million), non voice revenue (HRK 67 million) and terminal equipment (HRK 18 million).

The Optima Telekom contribution to the Group amounted to HRK 151 million and consisted of HRK 218 million of Optima Telekom third party contributions, presented in total under Miscellaneous, and HRK 66 million of inter-company transactions that decreased mainly non voice wholesale revenue.

The declining trend in voice and non voice revenue seen in previous years continued into H1 2015 due to the deteriorating economic situation and growing competition amid a proliferation of flat tariff offers and strict regulation of fixed business.

The contribution of subsidiaries to Group revenue in H1 2015 were as follows: Iskon - HRK 188 million (H1 2014: HRK 183 million); Combis - HRK 194 million (H1 2014: HRK 188 million).

Voice revenue

Voice revenue declined by HRK 208 million or 15.3% in comparison to H1 2014, driven by mobile (HRK 106 million or 17.0%) and fixed voice revenue (HRK 101 million or 13.8%).

The decline in mobile was in both the residential (HRK 75 million or 17.3%) and business (HRK 31 million or 16.2%) segments, on the back of a 2.9% fall in customers in residential (4.0%), whilst business rose by 1.3%.

Lower average price of usage as a result of the saturated mobile market as well as EU roaming regulation also contributed to the revenue decrease.

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

MTC revenue fell by HRK 44 million or 46.6% as a result of price decrease from January 2015 in national mobile to mobile traffic (H1 2015: HRK 0.063 vs H1 2014: HRK 0.1282). Regarding international termination, prices decreased from January 2015 at the national termination level (HRK 0.063 vs H1 2014: HRK 0.45), but from April 2015 deregulation of international termination prices from non EU countries was introduced and consequently international termination prices increased.

A prepaid retail revenue decrease of HRK 27 million or 15.5%, was seen in the residential segment and was caused by a fall in the customer base of 6.8% and lower ARPU. The customer base was down as a result of strong competition and the overall decline in the prepaid market, while lower voice ARPU was an outcome of a stronger focus on prepaid data packages, providing affordable data traffic for prepaid customers and consequently accelerating the substitution of voice by data.

Total postpaid retail revenue declined by HRK 24 million or 7.3%, in both residential (HRK 13 million or 7.3%) and business (HRK 11 million or 7.3%). The decline in postpaid retail residential revenue was the result of lower ARPU from the continuing trend towards the substitution of traditional voice services by data. This was further supported by the introduction of the new postpaid tariffs more focused on data, with 4G speed and additional services included in bundled offers.

The decline in postpaid retail business revenues was driven by lower ARPU as a result of lower prices amid fierce competitive pressure and further EU regulation from 1 July 2014 regarding roaming revenue.

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

In H1 2015 fixed retail voice declined by HRK 80 million or 12.2%. Of the total decrease, a fall of HRK 50 million or 10.5% was seen in residential with HRK 30 million or 16.7% in business. The decline was the result of the 6.8% fall yoy in retail mainlines, the fixed to mobile substitution trend due to mobile offers that are more attractive than fixed voice propositions and the strong regulatory environment. Consequently, the number of minutes dropped by 17.2% and ARPA voice per access declined by 7.1%.

The fixed wholesale voice decrease (HRK 21 million or 27.4%) was mainly driven by lower fixed national prices (H1 2015: HRK 0.005 vs H1 2014: HRK 0.024), followed by a decline in international fixed and mobile (H1 2015: HRK 0.063 vs H1 2014: HRK 0.45) interconnection prices from January 2015. Deregulation of international termination prices from non EU countries from April 2015 positively impacted fixed wholesale revenue.

Non voice revenue

Non voice revenue decreased by HRK 67 million or 4.8% yoy in H1 2015. This decline was the result of lower fixed wholesale revenue, SMS revenue, other fixed revenue, ADSL, VPN and traditional data. The fall was partially offset by an increase in mobile data revenue.

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

The decline in other non voice fixed revenue was caused by lower installation and fixed internet access revenues.

Lower ADSL revenue resulted from a fall in the broadband customer base of 2.3%. The decrease in traditional data revenue was driven by migration to IP data and pricing competition on the Ethernet market.

TV revenue was in line with H1 2014 despite a fall in the TV customer base of 1.7% as a consequence of TV market saturation, with a range of service providers and a widespread decrease in the spending power of households that have been consequently managing costs by switching to free-to-air DVB-T channels. TV ARPU was 0.5% higher, driven by premium content (additional program packages, video on demand etc.) and enhanced exclusive TV content with a new program - Arena Sport 5 - and HBO premium TV packages.

Mobile data growth resulted from the continued trend towards the substitution of traditional voice and SMS services by data, a higher volume of data traffic included in tariff bundles and an increasing share of customers owning smartphones. The newly introduced "Najbolje" tariffs contributed to higher data revenue, with a focus on 4G network services included in these tariffs.

Of the total decline in non voice revenue, a fall of HRK 58 million or 11.0% was seen in business and HRK 10 million or 1.1% in residential.

Other service revenue

An increase in other service revenue in H1 2015 of HRK 11 million or 3.5% yoy was mainly driven by higher ICT revenue.

Terminal equipment

Terminal equipment revenue decreased by HRK 18 million or 12.1% yoy. This was a result of the decline residential revenue decline (down HRK 30 million or 28.0%) due to lower prices of handsets, along with a higher share of customers on lower value tariffs.

This was partially offset by higher revenue from the business segment (up HRK 13 million or 32.8%) due to an increase in the sale of higher priced handsets and split contracts.

Miscellaneous

An increase in miscellaneous revenue of HRK 299 million, or 516.3% yoy, was mainly driven by Optima Telekom consolidated segment revenue of HRK 218 million.

Excluding this, an increase of HRK 81 million was mostly result of new rates introduced from 1 July for mobile customers, due to the fee on mobile services enforced by the government (HRK 65 million) and higher revenue from the energy business (HRK 19 million) due to an increased customer base. A decrease in national roaming revenue driven by lower prices partially offset this increase.

Other operating income

Other operating income decreased by HRK 31 million or 44.3% compared to H1 2014 mainly as a result of lower income from penalties and fees related to a court decision on the collection process.

3.2 Operating expenses

Total consolidated operating expenses decreased by HRK 50 million or 2.3% to HRK 2,117 million in H1 2015.

This decrease was driven by lower material expenses (HRK 46 million), employee benefits expenses (HRK 86 million) and the write down of assets (HRK 5 million), offset by higher other expenses (HRK 83 million) and lower work performed by Group and capitalized (HRK 4 million).

Excluding redundancy costs (H1 2015: HRK 81 million vs H1 2014: HRK 90 million) and the Optima Telekom contribution excluding exceptional items of HRK 103 million in H1 2015, operating expenses decreased by HRK 143 million or 6.9% to HRK 1,933 million in H1 2015.

3.2.1 Material expenses

Material expenses decreased to HRK 887 million in H1 2015 from HRK 933 million in H1 2014 as a result of lower merchandise, material and energy expenses (down HRK 32 million or 5.7%) and services expenses (down HRK 14 million or 3.7%).

A decrease in merchandise costs was mainly driven by lower mobile merchandise costs, while ICT and fixed rose year on year.

The decline in mobile merchandise costs was primarily driven by the residential segment as a result of a higher share of customers with lower value tariffs, taking lower-priced handsets. Consequently, subscriber acquisition costs (SAC) per gross addition in total decreased by 31.6% to HRK 97 from HRK 142. Mobile merchandise costs also decreased in the business segment due to a lower number of both acquired and retained customers. An ICT merchandise increase was driven by seasonal dynamics that affected the timing of projects.

The increase in the fixed segment, driven by business thanks to a Christmas campaign including an attractive gadget offer that ran into January 2015, was partially offset by lower residential revenue due to the impact seen in January 2014 of a previous Christmas promotion.

A decrease in material and energy costs in H1 2015 was mainly the result of outsourcing of HT's technology unit for construction to Ericsson Nikola Tesla in Q3 2014 and savings resulting from the closure of exchanges due to PSTN migration in Q4 2014 while the Optima Telekom consolidated segment contributed a slight increase. On the other hand, an increase in energy sales costs and sales administration costs resulted primarily from a higher number of customers.

The decrease in services expenses in H1 2015 was mainly due to lower copyright fees and telecommunication costs and partially offset by higher other services purchased costs and online costs.

Lower copyright fees were caused by a higher share of capitalized content rights contracts and a lower number of TV customers, down 1.7%, while the Optima Telekom consolidated segment contributed a slight increase.

Domestic telecommunication costs declined (down HRK 34 million) mainly due to lower fixed (FTR) and mobile (MTR) unitary termination prices from January 2015 as well as lower fixed traffic, down 17.2%. Of the total deviation, HRK 29 million was seen in residential and HRK 17 million in the business segment, partially offset by higher costs from the Optima Telekom consolidated segment in amount of HRK 13 million.

An international telecommunication cost increase (up HRK 26 million) primarily came from the Optima Telekom consolidated segment in the amount of HRK 30 million, partially offset by lower costs from the business segment (HRK 5 million lower) arising from the alignment of IOT discounts.

The rise in other services purchased costs came from the Optima Telekom consolidated segment, partially offset by lower costs related to PSTN migrations and Fix Broadband projects.

Online costs increased mainly related to an increase in ICT standard revenue.

Excluding the Optima Telekom contribution of HRK 53 million, in H1 2015 material expenses decreased by HRK 99 million yoy.

3.2.2 Employee benefits expenses

Total employee benefits expenses decreased by HRK 86 million or 13.7% to HRK 538 million in H1 2015.

Excluding redundancy costs (H1 2015: HRK 81 million vs H1 2014: HRK 90 million) and the Optima Telekom contribution excluding exceptional items of HRK 27 million in H1 2015, employee benefits expenses decreased by HRK 103 million. This was mainly due to the lower cost of wages and bonuses because of a lower number of FTEs, and decreased rights resulting from the new Collective agreement valid from 1 July 2014.

The number of FTEs decreased to 4,719 in H1 2015 from 5,413 in H1 2014, mainly due to the transfer of 631 FTEs from HT's technology unit for construction and maintenance to Ericsson Nikola Tesla from 1 September 2014. IN addition, the decrease in the number of FTEs was the result of the Group's Headcount Restructuring program and reorganization. This impact was partially offset by new employments arising from company transformation initiatives. Optima Telekom contributed 368 FTEs.

3.2.3 Other expenses

Other expenses increased by HRK 83 million or 13.7% to HRK 686 million in H1 2015 primarily due to the negative impact of higher licenses, maintenance and external employment, partially offset by lower consultancy costs.

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

An increase in maintenance resulted from the outsourcing of HT's technology unit for construction to Ericsson Nikola Tesla in Q3 2014, partially offset by lower costs from SLA NT consumption after the completion of negotiations with certain vendors. In addition, maintenance costs from Optima Telekom contributed further to the increase in costs.

An increase in external employment came mainly from the additional employment of agency technicians and lower IVR usage in call centers while Optima Telekom also contributed to the increase in costs (HRK 2 million).

Within the Horizont program, the indirect opex savings project (T-Rex) was finalized in June, with significant reduction measures identified and the implementation of some of these measures positively impacting expenses in H1 2015.

3.3 Write down of assets

Write downs of assets decreased by HRK 5 million or 12.1% to HRK 40 million in H1 2015. This decrease was mainly driven by the business segment as a result of value adjusted receivables in H1 2014 from domestic telecommunication operators coming from the prebankruptcy settlement. This was partially offset by the increase in the residential segment mainly coming from mobile as a result of a higher intensity of court claims. The Optima Telekom consolidated segment contributed HRK 2 million.

3.4 Depreciation and amortization

Depreciation and amortization rose HRK 49 million or 7.5% in H1 2015. The impact of Optima Telekom consolidation amounted to HRK 52 million.

3.5 HT Group profitability

in HRK million	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Revenue	1,680	1,686	0.3%	3,288	3,304	0.5%
EBITDA before exceptional items	651	685	5.3%	1,280	1,307	2.1%
Exceptional items ¹⁾	36	8	-78.2%	90	81	-10.3%
EBITDA after exceptional items	615	677	10.1%	1,190	1,226	3.0%
EBIT (Operating profit)	280	326	16.4%	530	517	-2.5%
Net profit	203	255	25.8%	401	406	1.2%
EBITDA margin before exceptional items	38.7%	40.6%	1.9 p.p.	38.9%	39.6%	0.6 p.p.
EBITDA margin after exceptional items	36.6%	40.2%	3.6 p.p.	36.2%	37.1%	0.9 p.p.
EBIT margin	16.7%	19.3%	2.7 p.p.	16.1%	15.6%	-0.5 p.p.
Net profit margin	12.1%	15.1%	3.1 p.p.	12.2%	12.3%	0.1 p.p.

1) Exceptional items refer to redundancy costs

EBITDA before exceptional items increased by HRK 27 million or 2.1% to HRK 1,307 million in H1 2015 mainly as a result of lower operating expenses (down HRK 40 million or 1.9%) and higher revenue (up HRK 17 million or 0.5%) partially offset by lower operating income (down HRK 31 million or 44.3%).

The Optima Telekom contribution to Group EBITDA was HRK 49 million and consisted of HRK 111 million of Optima Telekom third party contributions and HRK 62 million of inter-company transactions.

Consolidated net profit after non controlling interests increased by 1.2% to HRK 406 million in H1 2015 from HRK 401 million in H1 2014. This increase was primarily a result of EBITDA before exceptional items and was also impacted by lower exceptional items (transformation-related redundancy costs were HRK 9 million), the higher impact of non controlling interests (up HRK 12 million) from the Optima consolidation in 2015, and net financial income (up HRK 4 million) as well as lower taxation (down HRK 2 million). The increase was partially offset by higher depreciation and amortization (HRK 49 million).

The positive contribution of net financial income (HRK 4 million) primarily resulted from higher financial income (HRK 8 million), mainly due to higher exchange rate gains and higher income from investments in joint ventures (HRK 3 million). This was partially offset by higher financial expenses (HRK 7 million) driven largely by interest expenses. Optima Telekom contributed HRK 12 million of net financial expenses.

The Optima Telekom contribution to Group net profit was a loss of HRK 3 million.

3.6 Balance sheet

The total value of assets decreased to HRK 13,138 million at 30 June 2015 from HRK 13,834 million at 31 December 2014. The decrease of HRK 696 million resulted primarily from current financial asset (HRK 837 million), receivables (HRK 85 million), prepayments (HRK 61 million) which was partially offset by an increase in cash and cash equivalents (up HRK 482 million). Other decrease refers to noncurrent assets (HRK 202 million).

Total issued capital and reserves decreased to HRK 11,051 million at 30 June 2015 from HRK 11,235 million at 31 December 2014 due to the HRK 573 million of dividend payment for 2014 and realized net profit of H1 2015 amounting to HRK 406 million.

Total current liabilities decreased by HRK 408 million to HRK 1,480 million at 30 June 2015 mainly due to the settlement of higher payables for capital expenditures at year end.

3.7 Cash flow

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

Net cash flow from operating activities decreased by 9.7% yoy in H1 2015 mainly driven by passive working capital due to lower trade payables coming from higher operating expenses payments.

Net cash flow from investing activities decreased by 15.3% in H1 2015 yoy mainly as a result of higher financial investment (reverse REPO arrangements and time deposits with maturities of more than three months).

Net cash flow from financing activities increased by 14.8 % (up HRK 119 million) mainly due to a lower dividend paid in H1 2014 (HRK 163 million dividend, offset by HRK 23 million higher OT repayment and HRK 21 million content).

3.8 Capital expenditure

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
T-HT Group	304	299	-1.5%	492	553	12.3%
Capex / Revenue ratio	18.1%	17.8%	-0.3 p.p.	15.0%	16.7%	1.8 p.p.

Capital expenditure of HRK 553 million in H1 2015 was 12.3% or HRK 60 million higher than in H1 2014.

In the in the first half of 2015, the Group focused on the further development of the network infrastructure, increased broadband access capacity and availability as well as the implementation of IP transformation to secure business continuity and long-term sustainability of market position.

As a prerequisite for the development of next-generation broadband networks, geodetic surveying of Electronic Communications Infrastructure (ECI) routes thus far unsurveyed, and data migration into a central infrastructure database have been vigorously undertaken; to date 78% of underground ECI and 47% of aerial ECI has been surveyed. As a result of investment in the existing optical access network, the Group now provides FTTH access to 117,238 households. In addition, investment in the copper access network has continued resulting in 80.5% of locations equipped with VDSL equipment and six projects for access network modernization completed, bringing significant access loop shortening.

Mobile broadband deployment has also continued to enable outperformance in comparison to competing mobile broadband services, coverage, capacity, scalability and performance. Download throughput for 4G technology was increased to 150 Mbps on LTE1800 coverage and to 115 Mbps on the LTE800 coverage area. Coverage and access capacity of mobile broadband increased with the completion of 18 new sites, 75 new 3G services and 177 new 4G services. In addition, transmission systems for 317 2G services have been migrated to IP technology. At the end of Q2 2015, HT's 4G network reached 54% and its 3G network had 77% population coverage indoor.

The implementation of the all-IP service platform has been a strategic priority for the business transformation during the period from 2012 to 2015. By the end of June 2015, in total 1,043,637 (91.6%) customers had been migrated from obsolete TDM voice technology to IP. The upgrade of the existing TV platform has been completed in order to improve the customer experience and enhance video content security. In the HT Metro Ethernet Network, six new 10Gbps IP routers were installed and the migration of customers is ongoing. In order to enable LTE roaming, 21 LTE roaming partners

have been connected with the HT mobile network. In order to protect HT and business customers' networks from hacker's attacks, an anti DDoS platform has also been implemented.

These IT activities and achievements have been focused on the technological attainment of the 'digital company' business model and transformation to an 'on-line' business model, the convergence of the business portfolio (Next generation portfolio – the now-completed Tina project), and the consolidation of information systems and business support (CRM/Billing, Unified App, Easy to Partner – Steckerleiste, etc). The integration of the IT infrastructure alongside the migration of systems continues. In the area of cyber and data security, the Group has successfully completed the ISO27001 certificate annual surveillance audit and received the DT AG Group Security Certificate for the Utrine and Selska Data Centers.

4. Overview of segment profitability

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

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

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

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

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

The Optima consolidated unit includes the contribution from all Optima Telekom's functions to the Group financial results following the same reporting structure as used for other operating segments, apart from revenue details which are only reported in total in the Miscellaneous revenue line. According to the principle of "Chinese walls" introduced by Regulator, access to Optima Telekom figures is limited. As a result, the Group only undertakes financial consolidation, while Optima Telekom's non financial KPIs are not included into Group achievements.

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

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

4.1 Residential Segment

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Voice revenue	462	390	-15.6%	908	783	-13.7%
Non voice revenue	446	444	-0.4%	888	878	-1.1%
Other service revenue ¹⁾	10	11	6.0%	21	22	6.4%
Terminal equipment	58	33	-42.4%	107	77	-28.0%
Miscellaneous ¹⁾	5	38	654.2%	8	77	851.4%
Total Revenue	982	917	-6.6%	1,933	1,838	-4.9%
Operating expenses	318	264	-17.1%	612	545	-11.1%
Contribution to EBITDA before EI	664	653	-1.6%	1,320	1,293	-2.1%

¹⁾ In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -18 million) to Other service revenue (HRK +18 million) was made for H1 2014.

4.2 Business Segment

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Voice revenue	231	194	-16.0%	451	369	-18.3%
Non voice revenue	265	241	-9.2%	525	467	-11.0%
Other service revenue ¹⁾	158	165	4.8%	291	300	3.2%
Terminal equipment	19	22	16.2%	38	51	32.8%
Miscellaneous ¹⁾	25	34	33.7%	50	62	25.0%
Total Revenue	698	656	-6.0%	1,355	1,249	-7.8%
Operating expenses	333	317	-5.0%	671	613	-8.7%
Contribution to EBITDA before EI	365	340	-7.0%	684	636	-7.0%

¹⁾ In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -13 million) to Other service revenue (HRK +13 million) was made for H1 2014.

4.3 Network and support functions

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Other operating income¹⁾	28	16	-41.5%	69	38	-45.4%

Operating expenses	406	382	-5.9%	793	771	-2.8%
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Contribution to EBITDA before EI	-378	-366	3.2%	-724	-733	-1.3%
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¹⁾ Operating expenses per segment for 2014 changed in comparison to originally reported in 2014 due to organisational changes in 2014

4.4. Segment Optima Telekom consolidated*

in HRK million	Q2 2014	Q2 2015	change	Jan-Jun 2014	Jan-Jun 2015	change
Revenue	0	113	-	0	218	-
Other operating income	0	0	-	0	1	-
Operating expenses	0	54	-	0	108	-
Contribution to EBITDA before EI	0	58	-	0	111	-

*Note: Segment Optima consolidated does not include full Optima consolidation impact since internal transactions by HT Inc are included in business and residential segments. Including the impact of internal transactions, net Optima contribution to HT Group revenue amounts HRK 151 million and to EBITDA is HRK 49 million in H1 2015.

5. Hrvatski Telekom Inc. financial highlights

Revenue

Revenue decreased by HRK 144 million to HRK 2,820 million in H1 2015 from HRK 2,964 million in H1 2014. The decrease was driven by lower voice (down HRK 187 million), non voice revenue (down HRK 22 million) mainly related to a decline in ADSL revenue and terminal equipment (HRK 17 million lower). This was partially offset by an increase in miscellaneous revenue (up HRK 81 million) resulting from the new fee charged to mobile customers due to a government decision and from the energy business, as well as increase in other service revenue (up HRK 2 million) driven by T-portal.

EBITDA before exceptional items

EBITDA before exceptional items decreased by HRK 48 million to HRK 1,203 million in H1 2015 from HRK 1,251 million in H1 2014, mainly as a result of lower revenue (down HRK 144 million) and lower other operating income (down HRK 30 million) partially offset by lower operating expenses (down HRK 125 million).

HT operating expenses before exceptional items decreased by HRK 125 million to HRK 1,652 million in H1 2015 from HRK 1,777 million in H1 2014.

This decrease resulted from lower employee benefits expenses (down HRK 103 million), material expenses (down HRK 97 million), and the write down of assets (down HRK 9 million), partially offset by an increase in other expenses (up HRK 69 million) primarily due to negative impact of higher licenses and maintenance costs, partially offset by lower consultancy costs, and lower work performed by the company and capitalized (HRK 16 million lower).

Material expenses decreased largely owing to lower merchandise and telecommunication costs.

Excluding redundancy costs (H1 2015: HRK 76 million vs H1 2014: HRK 90 million), employee benefits expenses decreased by HRK 103 million due to a lower number of FTEs and a reduction in rights resulting from the Collective Agreement.

Net profit after non controlling interests

Net profit after non controlling interests decreased by HRK 10 million to HRK 388 million in H1 2015 from HRK 397 million in H1 2014. This decrease was primarily a result of a fall in EBITDA before exceptional items, partially offset by lower exceptional items (transformation related redundancy costs down HRK 14 million), higher net financial income (up HRK 14 million), lower depreciation and amortization (down HRK 7 million), and lower taxation (down HRK 4 million).

6. Risk management

Besides the business and regulatory developments detailed in this statement, and in audited financial statements for 2014 made public, there were no material changes to the Group's risk profile in the period under review.

7. Group 2015 outlook unchanged

Revenue

Last year brought no recovery in the national economy; the recession persisted with GDP for 2014 at -0.4% and forecast for 2015 at around zero. Unemployment has remained at high levels, with many companies undertaking restructuring measures, while both public debt and the budget deficit have increased.

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

Despite this economic environment, and alongside other challenges including the imposition of a new spectrum fee by the government in 2014, a stronger contribution from growth areas within the Group, backed by an intensive programme of investment, with Optima Telekom fully consolidated for the entire year, the Group expects revenue to remain stable in 2015.

EBITDA before exceptional items

The economic environment and revenue trends outlined above, along with changes in the revenue structure, will impact EBITDA accordingly. However, the Group's continued focus on transformation initiatives will help maintain a high level of profitability, and consequently the Group expects an EBITDA margin in 2015 of around 40%.

Investments

HT Group has for some time identified the need for a significant strategic shift with respect to investment, aimed at both enhancing the Group's market position through the provision of high quality customer services whilst supporting the overall health and competitiveness of the Croatian economy.

An improvement at the end of 2014 in the regulatory environment with respect to investment in telecoms infrastructure in Croatia has finally enabled the Group to dedicate significant funds for investment in the network.

HT Group will intensify and focus its investment on infrastructure, customer processes and services whilst monitoring business expansion opportunities in both domestic and regional markets.

In particular, the Group is planning a significant increase in infrastructure investment, with particular emphasis on fixed and mobile broadband. This will enable the Group to achieve its year-end 2015 targets of household coverage by Next Generation Access - NGA - (fixed broadband >30Mbps) of around 50% and LTE (4G) indoor coverage of around 60% of the population.

Total Group's investments are planned at HRK 1,350 million, which represents a one-off increase of around 26% compared to 2014.

8. HT Group Financial statements

8.1 Consolidated Income Statement

in HRK million (IFRS)	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Voice revenue	693	584	-15.7%	1,360	1,152	-15.3%
Non voice revenue	711	685	-3.7%	1,413	1,346	-4.8%
Other service revenue	168	176	4.9%	312	322	3.5%
Terminal equipment	77	56	-27.8%	145	128	-12.1%
Miscellaneous ¹⁾	30	185	505.8%	58	357	516.3%
Revenue ²⁾	1,680	1,686	0.3%	3,288	3,304	0.5%
Other operating income ¹⁾	28	16	-42.1%	69	38	-44.3%
Total operating revenue	1,708	1,702	-0.3%	3,356	3,343	-0.4%
Operating expenses	1,093	1,025	-6.2%	2,166	2,117	-2.3%
Material expenses	476	451	-5.2%	933	887	-4.9%
Merchandise, material and energy expenses	288	269	-6.7%	562	530	-5.7%
Services expenses	188	182	-2.8%	371	357	-3.7%
Employee benefits expenses	307	233	-24.2%	623	538	-13.7%
Other expenses	315	343	8.8%	603	686	13.7%
Work undertaken by the Group and capitalised	-25	-21	15.9%	-38	-34	11.1%
Write down of assets	20	19	-4.9%	45	40	-12.1%
EBITDA	615	677	10.1%	1,190	1,226	3.0%
Depreciation and amortization	335	351	4.8%	660	709	7.5%
EBIT	280	326	16.4%	530	517	-2.5%
Financial income	2	5	225.7%	15	23	55.1%
Income/loss from investment in joint ventures	4	9	147.2%	4	7	76.0%
Financial expenses	31	29	-4.7%	49	56	14.8%
Profit before taxes	255	311	22.1%	501	491	-1.9%
Taxation	52	60	15.2%	99	98	-1.5%
Net profit	203	251	23.9%	401	394	-1.9%
Non controlling interest	0	-4	-	0	-12	-
Net profit after non controlling interest	203	255	25.8%	401	406	1.2%
Exceptional items ²⁾	36	8	-78.2%	90	81	-10.3%
EBITDA before exceptional items	651	685	5.3%	1,280	1,307	2.1%

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK -31 million) to Other service revenue (HRK +31 million) was made for H1 2014.

2) Related to redundancy restructuring costs

8.2 Consolidated Balance Sheet

in HRK million (IFRS)	At 31 Dec 2014	At 30 Jun 2015	Change
Intangible assets	1,716	1,579	-8.0%
Property, plant and equipment	5,577	5,556	-0.4%
Non-current financial assets	735	717	-2.4%
Receivables	121	97	-19.7%
Deferred tax asset	51	48	-5.4%
Total non-current assets	8,200	7,998	-2.5%
Inventories	115	123	6.4%
Receivables	1,525	1,440	-5.6%
Current financial assets	1,539	702	-54.4%
Cash and cash equivalents	2,192	2,674	22.0%
Prepayments and accrued income	264	202	-23.4%
Total current assets	5,635	5,140	-8.8%
TOTAL ASSETS	13,835	13,138	-5.0%
Subscribed share capital	8,883	9,823	10.6%
Reserves	409	444	8.6%
Revaluation reserves	2	-5	-371.2%
Retained earnings	673	268	-60.2%
Net profit for the period	1,142	406	-64.5%
Non controlling interest	125	115	-8.0%
Total issued capital and reserves	11,235	11,051	-1.6%
Provisions	71	71	0.5%
Non-current liabilities	590	488	-17.3%
Deferred tax liability	50	47	-5.5%
Total non-current liabilities	711	607	-14.7%
Current liabilities	1,742	1,381	-20.8%
Deferred income	111	94	-15.7%
Provisions for redundancy	35	6	-83.2%
Total current liabilities	1,889	1,480	-21.6%
Total liabilities	2,600	2,087	-19.7%
TOTAL EQUITY AND LIABILITIES	13,835	13,138	-5.0%

8.3 Consolidated Cash Flow Statement

in HRK million (IFRS)	Jan-Jun 2014	Jan-Jun 2015	change
Profit before tax	501	491	-1.9%
Depreciation and amortization	660	709	7.5%
Increase / (decrease) of current liabilities	-81	-251	-211.2%
(Increase) / decrease of current receivables	83	47	-43.2%
(Increase) / decrease of inventories	-21	-7	65.1%
Other cash flow increases/ decreases	-242	-176	27.0%
Net cash inflow/outflow from operating activities	900	813	-9.7%
Proceeds from sale of non-current assets	0	4	-
Proceeds from sale of non-current financial assets	1	1	-5.6%
Interest received	11	10	-5.6%
Other cash inflows from investing activities	1,098	1,521	38.5%
Total increase of cash flow from investing activities	1,110	1,535	38.3%
Purchase of non-current assets	-523	-526	-0.5%
Purchase of non-current financial assets	-76	-75	0.4%
Other cash outflows from investing activities	-93	-580	-522.1%
Total decrease of cash flow from investing activities	-692	-1,181	-70.7%
Net cash inflow/outflow from investing activities	418	354	-15.3%
Total increase of cash flow from financing activities	0	0	-
Repayment of loans and bonds	0	-22	-
Dividends paid	-736	-573	22.1%
Repayment of finance lease	-2	-4	-78.8%
Other cash outflows from financing activities	-66	-87	-31.2%
Total decrease in cash flow from financing activities	-804	-685	14.8%
Net cash inflow/outflow from financing activities	-804	-685	14.8%
Exchange gains/losses on cash and cash equivalents	-2	1	144.8%
Cash and cash equivalents at the beginning of period	2,039	2,192	7.5%
Net cash (outflow) / inflow	511	482	-5.8%
Cash and cash equivalents at the end of period	2,551	2,674	4.8%

Note: 2014 Cash flow restated, changes were made in order to separately present cash outflows for content contract and regulatory licences purchases within cash flows from financial activities and due to changes in cash flow methodology with regards to purchases of non-current assets

8.4 Consolidated EBITDA reconciliation

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Segment Result (Contribution to EBITDA)						
Residential Segment	664	653	-1.6%	1,320	1,293	-2.1%
Business Segment	365	340	-7.0%	684	636	-7.0%
Network and Support Functions	-378	-366	3.2%	-724	-733	-1.3%
Segment Optima consolidated	0	58	-	0	111	-
Total Contribution to EBITDA before SI of the Segments	651	685	5.3%	1,280	1,307	2.1%
Special influences	36	8	-78.2%	90	81	-10.3%
Total EBITDA	615	677	10.1%	1,190	1,226	3.0%

8.5 Group's revenue breakdown under former reporting structure

in HRK million	Q2 2014	Q2 2015	<i>change</i>	Jan-Jun 2014	Jan-Jun 2015	<i>change</i>
Mobile ¹⁾	688	644	-6.4%	1,325	1,267	-4.4%
Fixed Telephony	309	266	-13.8%	625	541	-13.4%
Wholesale	118	88	-25.5%	233	161	-31.0%
IP Revenue	397	390	-1.8%	791	777	-1.8%
Data	20	21	3.4%	43	41	-4.1%
ICT	137	145	5.8%	250	258	3.2%
Miscellaneous ¹⁾	8	120	-	16	233	-
Energy	2	10	473.3%	2	21	-
Other non telco services	1	2	103.1%	2	4	127.7%
Revenue	1,680	1,686	0.3%	3,288	3,304	0.5%

8.6 Notes to the condensed consolidated financial statements for the six months ended on 30 June 2015

Basis of preparation

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

Significant Accounting Policies

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

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

Dividends

On 29 April 2015 General Assembly of Hrvatski Telekom d.d. reached a decision on dividend distribution that out of the retained earnings from the year 2009, an amount of HRK 573,192,228.00 shall be paid out as dividend to shareholders, in the amount of 7.00 HRK per share.

Dividend was paid on 25 May 2015.

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

Take-over of Optima Telekom

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

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

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

Segment information

Business reporting format is determined to be Residential, Business, Network and Support Function and Optima Telekom consolidated segment as the Group's risks and rates of return are affected

predominantly by differences in the market and customers. The segments are organised and managed separately according to the nature of the customers and markets that the services rendered, with each segment representing a strategic business unit that offers different products and services.

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

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

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

The Optima Telekom consolidated unit includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount on the Miscellaneous revenue line. According to the "Chinese wall" introduced by the regulator, access to Optima Telekom figures is limited.

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

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

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

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

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

Period ended 30 June 2014	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Total HRK millions
Segment revenue	1,933	1,355	-	3,288
<i>Service revenues, restated</i>	<i>1,817</i>	<i>1,267</i>	-	<i>3,084</i>
<i>Terminal equipment, restated</i>	<i>107</i>	<i>38</i>	-	<i>145</i>
<i>Other, restated</i>	<i>9</i>	<i>50</i>	-	<i>59</i>
Usage related direct costs	(134)	(116)	-	(250)
Income and losses on accounts receivable	(2)	(41)	-	(43)
Contribution margin I, restated	1,797	1,198	-	2,995

Non-usage related direct costs	(278)	(308)	-	(586)
Segment result, restated	<u>1,519</u>	<u>890</u>	<u>-</u>	<u>2,409</u>
Other income, restated	-	-	69	69
Other operating expenses	(220)	(226)	(842)	(1,288)
Depreciation, amortisation and impairment of non-current assets	-	-	(660)	(660)
Operating profit, restated	<u>1,299</u>	<u>664</u>	<u>(1,433)</u>	<u>530</u>

	Residential	Business	Network & Support functions HRK millions	Total
1 April 2014 to 30 June 2014	HRK millions	HRK millions		HRK millions
Segment revenue	982	699	-	1,681
<i>Service revenues, restated</i>	918	654	-	1,572
<i>Terminal equipment, restated</i>	58	19	-	77
<i>Other, restated</i>	6	26	-	32
Usage related direct costs	(68)	(63)	-	(131)
Income and losses on accounts receivable	(5)	(14)	-	(19)
Contribution margin I, restated	<u>909</u>	<u>622</u>	<u>-</u>	<u>1,531</u>
Non-usage related direct costs	(144)	(152)	-	(296)
Segment result, restated	<u>765</u>	<u>470</u>	<u>-</u>	<u>1,235</u>
Other income, restated	-	-	29	29
Other operating expenses	(103)	(115)	(431)	(649)
Depreciation, amortisation and impairment of non-current assets	-	-	(335)	(335)
Operating profit, restated	<u>662</u>	<u>355</u>	<u>(737)</u>	<u>280</u>

Period ended 30 June 2015	Residential HRK millions	Business HRK millions	Network & Support functions HRK millions	Optima Telekom consolidated HRK millions	Total HRK millions
Segment revenue	1,838	1,249	-	218	3,305
<i>Service revenues</i>	1,684	1,136	-	-	2,820
<i>Terminal equipment</i>	77	51	-	-	128
<i>Other</i>	77	62	-	218	357
Usage related direct costs	(105)	(90)	-	(48)	(243)
Income and losses on accounts receivable	(22)	(12)	-	(3)	(37)
Contribution margin I	<u>1,711</u>	<u>1,147</u>	<u>-</u>	<u>167</u>	<u>3,025</u>
Non-usage related direct costs	(225)	(327)	-	(54)	(606)
Segment result,	<u>1,486</u>	<u>820</u>	<u>-</u>	<u>113</u>	<u>2,419</u>
Other income	-	-	38	-	38

Other operating expenses	(210)	(196)	(819)	(6)	(1,231)
Depreciation, amortisation and impairment of non-current assets	-	-	(709)	-	(709)
Operating profit	1,276	624	(1,490)	107	517
			Network & Support functions	Optima Telekom consolidated	Total
1 April 2015 to 30 June 2015	Residential HRK millions	Business HRK millions	HRK millions	HRK millions	HRK millions
Segment revenue	916	657	-	114	1,687
<i>Service revenues</i>	845	600	-	-	1,445
<i>Terminal equipment</i>	33	23	-	-	56
<i>Other</i>	38	34	-	114	186
Usage related direct costs	(54)	(48)	-	(26)	(128)
Income and losses on accounts receivable	(9)	(7)	-	(1)	(17)
Contribution margin I	853	602	-	87	1,542
Non-usage related direct costs	(108)	(173)	-	(26)	(307)
Segment result,	745	429	-	61	1,235
Other income	-	-	17	-	17
Other operating expenses	(92)	(90)	(389)	(4)	(575)
Depreciation, amortisation and impairment of non-current assets	-	-	(351)	-	(351)
Operating profit	653	339	(723)	57	326

Relations with the governing company and its affiliated companies

In the first six months of 2015 there were no transactions among related parties with a significant impact on the financial position and operations of the Group in the given period.

In the first six months of 2015 there were no changes in transactions among related parties which were specified in the annual financial report for 2014 and which had a significant impact on the financial position and operations of the Group in the first six months of 2015.

Business relations transacted between HT d.d. and affiliated companies thereof (hereinafter referred to as: Group) in the first six months of 2015 and the governing company and affiliated companies thereof can be classified as follows:

Transactions with related companies

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

In the first six months of 2015 the Group generated total revenue from related companies from international traffic to the amount of HRK 34 million (the first six months of 2014: HRK 36 million), while total costs of international traffic amounted to HRK 31 million (the first six months of 2014: HRK 35 million).

DTAG companies provided technical assistance to the Group in the amount of HRK 6 million in the first six months of 2015 (the first six months of 2014: HRK 12 million).

Compensation of the Supervisory Board

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

In July 2013, the Supervisory Board established the Sustainability Committee. The Committee consists of three members, two external experts and one member of the Supervisory Board. Members of the Sustainability Committee who are not at the same time members of the Supervisory Board are entitled to monthly remuneration in the amount of 0.25 of the average net salary of employees of the Company paid in the preceding month. During 2014, only one member received remuneration, which was not being paid directly to him but in line with his instruction, remuneration was paid out to the benefit of the Fund for award of scholarships to Croatian Homeland War veterans and their children.

Due to the accomplishments of the mission of the Sustainability Committee, in December 2014 the Supervisory Board passed the decision on its termination.

In the first six months of 2015 the Company paid a total amount of HRK 0.4 million (the first six months of 2014: HRK 0.3 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 six months of 2015 the total compensation paid to key management personnel of the Group amounted to HRK 21 million (first six months of 2014: HRK 25 million Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

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

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

The management report for the first six months of 2015 contains a true presentation of development and results of operations and position of the Group, with description of significant risks and uncertainties for the Group as a whole.

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

Mr. Kai-Ulrich Deissner, Ph.D., Member of the Management Board and Chief Financial Officer

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

Mr. Thorsten Albers, Member of the Management Board and Chief Technical and Chief Information Officer

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

Zagreb, 30 July 2015

10. Presentation of information

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

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

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

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

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

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

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

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

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

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

11. Disclaimer

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