OT-Optima Telekom d.d. Annual Report of the Group

2015

Corporate Governance and General Information

SUPERVISORY BOARD	Siniša Đuranović — CHAIRMAN Ariana Bazala-Mišetić— DEPUTY CHAIRMAN Marina Brajković — MEMBER Jasenka Anica Kreković — MEMBER Marko Makek — MEMBER Ana Hanžeković — MEMBER Rozana Grgorinić — MEMBER Maša Serdinšek — MEMBER Ivica Hunjek, Member — EMPLOYEE REPRESENTATIVE
BOARD OF DIRECTORS	Zoran Kežman — CHAIRMAN Irena Domjanović — MEMBER Mirela Šešerko — MEMBER Tomislav Tadić — MEMBER
IBAN	HR3023600001101848050 Zagrebačka banka d.d. Zagreb Commercial Court of Zagreb
OIB	36004425025
MBS	040035070
MB	0820431
SHARE CAPITAL	
AMOUNT	635.568.080,00 HRK
NUMBER OF SHARES	63.556.808, nominal value of HRK 10.00 each

Optima Telekom Group Members and Regional Centers

HEADQUARTERS – COMPANY MANAGEMENT

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— Optima telekom za upravljanje nekretninama i savjetovanje d.o.o., Bani 75/a, 10 000 Zagreb

Region West

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I. Business and Financial Overview

Introduction

I. 1

In the previous two-year period following the conclusion of the Pre-bankruptcy Settlement, and in accordance with the obligations assumed in the Settlement, the Company has increased its share capital through the issuance of common shares, investment of rights – converting a part of the pre-bankruptcy creditors' claims into share capital, with the exclusion of existing shareholders' priority rights. In 2015, the Commercial Court of Zagreb, in its decision no. Tt-15/1314-2 of 26 February 2015, registered the share capital increase. The pre-bankruptcy creditors who submitted a written statement (subscription form) within the subscription deadline and concluded the agreement on investing rights (claims) into the Company's share capital, have been awarded common shares, ticker OPTE-R-B, nominal value HRK 10.00 each.

In its decision Class: UP/I-451-04/14-11/03, Cons. No. 326-01-770-772-15-11 of 27 March 2015 the Croatian Financial Services Supervisory Agency approved the registration document, the note on the security and the summary of the prospectus which, taken together, form a prospectus composed of separate documents for the admission of a total of 60,736,738 common registered dematerialized shares, having the nominal value of HRK 10.00 each and the total nominal value of HRK 607,367,380.00 to the regulated market; the CDCC has published a notification on conversion of common shares ticker OPTE-R-B into OPTE-R-A on 7 April 2015. Upon execution of Securities conversion, 63.556.808 securities ticker OPTE-R-A, ISIN: HROPTERA0001, each having the nominal value of 10.00 HRK will be included in the Depository and Clearing and Settlement of CDCC. Pursuant to its Decision Class: UP/I-451-01/15-01/71, Cons. No. 536-15-2 of 1 April 2015, Zagrebačka Burza d.d. allowed the admission of 60,736,738 common shares, each having the nominal amount of HRK 10.00, ticker: OPTE-R-A, ISIN: HROPTERA0001, into the official market of the Zagreb Stock Exchange.

Thereby, the Company has completed the admission of common shares issued in the pre-bankruptcy settlement proceedings into the regulated market.

Today the Company has a share capital of HRK 635,568,080.00, divided into 63,556,808 common registered shares, having the nominal value of HRK 10.00 each, ticker OPTE-R-A.

Furthermore, based on the Decision on issuance of 7 year Optima bonds in the amount of HRK 250,000,000.00 dated November 17, 2006, on 1 February 2007 the Company issued a security note. However, given that the Company underwent pre-bankruptcy proceedings in the meantime, the bonds fell due and the Zagreb Stock Exchange suspended trading in these bonds and cancelled their admission as of February 1, 2014.

Following the conclusion of the Pre-bankruptcy Settlement, on 30 May 2014 the Central Depository & Clearing Company, Inc. registered the change of characteristics of the issuer's bond, ticker OPTE-O-142A, ISIN: HROPTEO142A5, in its information system, converting it into a debt security with multiple maturity dates having the share of remaining principal balance in the nominal amount of HRK 0.30 per bond. In the period between 30 May 2014 and 30 May 2017, the Company as the Issuer shall pay interest to holders semi-annually, which are to be calculated applying the 5.25% per annum interest rate. From 30 May 2017 until 30 May 2022, apart from the said interest, the Company shall pay the bondholders 3% of the principal every six months.

In the proceeding period, the Company complied with its obligations and issued the Prospectus composed of separate documents for the readmission of the bonds and Zagrebačka burza d.d. approved their admission into the official market of the Zagreb Stock Exchange.

Namely, on 31 July 2015 HANFA rendered the decision Class: UP/I-976-02/15-01/08, Cons. no. 326-01-770-772-15-5 approving the Security Note and prospectus summary which, along with the Registration Document approved by the Agency's decision of 27 March 2015, Class: UP/I-451-04/14-11/03, Cons. no. 326-01-770-772-15-11, comprise the prospectus composed of separate documents for the admission of dematerialized registered bonds, ticker OPTE-O-142A, having the nominal value of HRK 1.00 each and the total nominal value of HRK 250,000,000.00, with an annual interest of 5.25%, falling due in 2022. On 3 August 2015 the Company filed an application to the Zagreb Stock Exchange, and on the same day the Stock Exchange rendered the decision Class: UP/I-451-01/15-01/139, Cons. No. 536-15-2, approving the admission of HRK 250,000,000.00 worth of bonds, ticker OPTE-O-142A, ISIN: HROPTEO142A5 into the official market of the Zagreb Stock Exchange, and 6 August 2015 has been determined as the first day of security trading.

All the information regarding the fulfillment of obligations arising out of the Pre-bankruptcy Settlement are published on the Financial Agency's website, www.fina.hr, pursuant to the Financial Operations and Pre-bankruptcy Settlement Act. At the same time, the Company is informing the public on the fulfillment of obligations in a timely and transparent fashion in accordance with the relevant laws and regulations in the field of capital markets.

Statement by the Chairman of the Board

I. 2

Because of setting solid foundations in the second half of 2014, and owing to the ongoing operative restructuring that continued throughout 2015 and an enhanced market presence, especially in the second half of the year, we have achieved excellent financial results and a market success of which we are extremely proud. Having achieved the EBITDA before special items in the amount of HRK 106.4 million, which is better than 2014 by 21.3% or HRK 18.7 million, for the first time in 10 years of Optima's history, we have joined the club of the biggest companies in Croatia that achieve EBITDA results exceeding HRK 100 million.

Such an outstanding financial result was greatly influenced by the synergy with Hrvatski Telekom in the field of cost management, as well as a series of procedural changes. On the other hand, our increased focus on providing Internet access services has resulted in an increase in revenue in this segment, which also represents the center of our future business.

The savings we have achieved through the restructuring process were largely reinvested into a stronger market presence with the aim to strengthen Optima's position in the market. Investments into strengthening, improving recognizability and clearer positioning of Optima's brand, combined with stronger marketing activities, more sales resources with a higher efficiency and a refreshed product portfolio, have resulted in a higher inflow of new customers month after month, while simultaneously, the outflow of existing customers is becoming smaller and smaller. Thanks to this, after a number of years we have changed the trend in our customer base growth in the fourth quarter of this year, i.e. we have achieved an increase in the number of retail customers.

It is safe to say that the market has accepted the changes we made quite well, showing a significant increase of interest for our products and services, as well as a series of novelties we

Zoran Kežman,
Chairman of the Board

have introduced, including the recommendation program. All of this was manifested through the multiplication of the number of calls to our contact center and our website views.

Apart from investing into market presence, we have proceeded with capital investments in order to adjust our network capacity with the ever-growing customer needs for higher speed Internet access. To this end, in 2015 we have implemented VDSL technology in the greater part of our access network. Apart from that, we have increased capacity in vital segments of our core network and installed additional functionalities to improve quality and reliability.

With the activities we carried out and the successes we achieved in 2015, we have additionally strengthened the foundation for further growth and new successes in the upcoming period, so we are very optimistic about 2016.

I. 3 Market Overview

Fixed Telephony Market
In the fixed telephony market in Croatia there is a negative trend in the use of the service. The total outgoing traffic (in minutes) of all fixed public communications network operators in the third quarter of 2015 was 3.94% less compared to the same period of the previous year, with a retail income drop of 1.89%.

This negative trend in the fixed telephony market has been present for a while now and is predicted to continue in the future. The ratio between the total outgoing traffic (in minutes) of all fixed public communications network operators in the third quarter of 2015 and the third quarter of 2014 is negative by 11.70%, while the retail income parameter ratio has also dropped significantly, by 10.59%

Broadband Access Market
At the same time, in the third quarter of 2015 the slight growing trend in the use of broadband Internet access via fixed networks continued. Compared to the second quarter of 2015, in the third quarter of 2015 the number of broadband access connections via fixed networks increased by 0.65% but the revenue has dropped slightly by 0.35%.

Compared to the third quarter of the previous year, in the third quarter of 2015 the number of broadband access connections via fixed networks increased by 3.01%. At the same time, the revenue in this category decreased by 3.31%. This market is predicted to grow for some time.

IPTV Market
The internet protocol based television (IPTV) market has shown a mild drop. The total number of connections is 0.76% smaller in the third quarter of 2015, compared to the previous quarter of 2015.

When the ratio between the total numbers of connections is compared at the level of the third quarter of 2014 and the third quarter of 2015, it shows a 2.36% decrease. However, the entire IPTV market is still predicted to grow in the future.

I. 4 Economic Environment

The GDP increase in the third quarter exceeded all expectations. The GDP rate in the third quarter has actually increased by 2.8%, which is significantly higher than in the previous two quarters when the increase rate was 0.5 or 1.2%. Thanks to a good tourist season, the export of services had the greatest impact on the GDP increase, while the impact of further growth in export of goods, still fueled by Croatia's accession to the European Union, was only slightly smaller. Domestic demand fell significantly behind in contributing to the growth of economic activities. The highest impact is owed to personal consumption triggered by changes in income taxation at the beginning of the year. After a six-year decline, the GDP increase in the previous year will amount to approximately 1.5%, due to the slight recovery of domestic demand, which is also starting to grow after six years.

The previous year has been characterized by relatively minor changes in the HRK exchange rate, i.e. a mild appreciation of the Croatian Kuna towards the Euro at an annual level. In the previous year, according to the average annual exchange rate, the Croatian Kuna was strengthened by 0.3% towards the common European currency. In this way, after four years of depreciation, triggered in the most part by a decreased foreign currency inflow from abroad, there was a mild increase in HRK value again. The exchange rate fluctuation throughout the year was almost identical to last year trends, with relatively minor oscillations.

In the first eleven months of the previous year, influenced by the changes in income taxation in force since the beginning of last year and deflatory trends, the average gross and net salaries are still on an upward path that has been present in the last year and a half. Croatia still has a relatively high average gross salary level per employee (EUR 1077) compared to similar countries in the region.

In November of last year the growing trend in salaries continued. At an annual level and concerning actual values, this trend has been present continuously during the last twelve months (in net salaries) and during the last eighteen months when it comes to gross salaries.

After dropping for seven consecutive months, after the entry into force of the new Bankruptcy Act, the number of business entities with overdraw on their bank accounts increased in November (by 1 063). This is a result of the new Act imposing an obligation on FINA to file for bankruptcy of all business entities with bank accounts overdrawn for a period exceeding 120 days (there are over 30 thousand of those). The value of outstanding debt plunged to the level of HRK 25.45 billion, only because of the initiation of pre-bankruptcy proceedings. After two months of its application, no changes are visible: the majority of business entities with overdraw on their bank accounts have been in that state for over 180 days, with outstanding payment titles worth HRK 23.2 billion (91% of the overall value of outstanding liabilities). The number of business entities only entering into overdraw is a bad indicator, as it remains at a high level of two thousand a month on average. This means that payment mechanisms have not improved and still produce situations holding back business.

Regulatory Environment

I. 5

In this reporting period, the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM) has complied with its obligation to carry out the process of determining relevant markets subject to ex-ante regulation within two years from Croatia's accession to the European Union. In this way, HAKOM has rendered final decisions in all relevant market analyses.

Concerning the existence of operators with significant market power and regulatory obligations imposed on them, the most significant change for the Company happened in the field of price control in the call termination on individual network wholesale market. Namely, HAKOM acknowledged that Croatian operators have been discriminated against in relation to operators from non-EU countries, so instead of the current price regulation for all calls transferred from the network of one of the national operators or operators from the EU/EEA, the regulation according to the A number has been introduced. Therefore, now the price control obligation imposed on the Company in the relevant market concerns the service of terminating voice calls initiated from A numbers belonging to one of the national or EU/EEA operators, irrespective of the network where the call originated. The said regulatory change was a precondition for the application of a new A number charging model effective as of 1 April 2015, which had a positive financial impact on the Company's business in 2015.

Simultaneously with conducting analyses of wholesale markets, HAKOM has rendered a final decision on the deregulation of the retail broadband access market whereby it set aside item 2 of the Interim Decision of 3 July 2014, whereby the Company was designated as an operator with significant market power in the relevant market and imposed regulatory obligations. Therefore, bearing in mind that back in November of 2014 HAKOM rendered a final decision in the access to the public communications network at a fixed location market analysis, setting aside item 1 of the Interim Decision of 3 July 2013, Optima's status as an operator with significant market power, as provided in HAKOM's Interim Decision of 3 July 2014, has been entirely abolished. However, by the simultaneous rendering of final decisions in the wholesale (physical) network infrastructure access at a fixed location market and the wholesale central access provided at a fixed location for mass-market products market HAKOM has imposed on Optima, being a subsidiary of HT, respective regulatory obligations of price control and cost accounting, as it did on HT in the said markets. In reality, this means that the Company is obliged to carry out the margin squeeze test for the retail price of Internet access service and the related IPTV service, irrespective of whether these are provided independently or as a part of a package containing other electronic communications services as well.

Compared to the Company's previous regulatory obligations which included the supervision of promotional offers and limitations of promotional activities, the ban on giving an unfair advantage to certain end customers and a longer period for the launch of new packages containing regulated services, it can be concluded that HAKOM's rigid regulation the Company was exposed to between 3 July 2014 and 9 July 2015 became somewhat more flexible. Therefore, the said changes had a positive impact on the Company's business, having led to a greater freedom in creating offers, a quicker response to competitors' promotional offers and engaging certain customer groups through custom-made offers, which influenced the Company's business in the final quarter of 2015 positively, in a number of ways.

In this reporting period, at the request of HT, HAKOM rendered a final decision in the process of changing the monthly charge for the wholesale unbundled access to the local loop service (hereinafter: ULL service), in line with HAKOM's decision of 18 December 2013. In this way, HAKOM allowed HT to start applying the monthly charge for the ULL service amounting to HRK 57.30, but not before 1 January 2017. Given that the monthly charge for the ULL service is calculated into the price of wholesale broadband access service when the end customer makes basic access to the network via the entrant operator (hereinafter: NBSA service), changing the monthly charge for the ULL service will reflect on the price of the NBSA service, both being HT's wholesale services used by Optima in order to provide retail services to its end customers.

Out of the more important amendments of regulations in the field of electronic communications, one should point out the entry into force of the amended and supplemented Ordinance on the Manner and Conditions for Provision of Electronic Communications Networks and Services, which now allows for the change of operators to be done by contracts concluded through means of long distance communications.

Business Indicators and Segments

I. 6

Customer Base[1]	31.12.2014	31.12.2015/ 31.12.2014	30.09.2015	31.12.2015/ 30.09.2015	31.12.2015
Business					
PVS	15.960	-1,3%	15.678	0,4%	15.747
IPTV	1.060	1,7%	1.028	4,9%	1.078
Internet	10.858	8,5%	11.073	6,4%	11.779
Data	1.177	16,0%	1.269	7,6%	1.365
Residential					
PVS	142.496	-1,8%	136.570	2,5%	139.963
IPTV	25.840	5,6%	23.998	13,7%	27.287
Internet	86.867	1,7%	84.919	4,0%	88.310

a. Residential Sales Segment

Significant savings achieved during the year through the operative restructuring program made it possible for Optima Telekom to invest in marketing and sales activities aimed at decreasing the outflow of existing customers and increasing the inflow of new customers.

Thanks to this, there was a significant success in the residential segment with respect to stopping and stabilizing the negative trend in user base development from the previous years.

Compared to the number of fixed public voice service residential customers at the end of 2014, at the end of 2015 Optima Telekom has had a 1.8% decrease with a 19.1% revenue drop. Negative trends in the fixed public voice service residential customers segment have been recorded at national level as well and are expected to continue in the future.

In spite of this, in the fourth quarter of 2015 Optima Telekom has had a slight increase in the number of fixed public voice service residential customers by 2.5% with a mild, 0.3% revenue decrease compared to the previous quarter. It is a result of certain promotional benefits Optima prepared during the above mentioned quarter.

At an annual level, the revenue in the broadband Internet access segment increased by 10.1%, while the number of customers also

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The data provided differs from previous data published in the Company's financial reports for 2014, solely in respect of the customer base data. This is a consequence of circumstances that occurred after the publication of financial reports but had affected reporting.

Namely, in the structure of providing services to end customers there was a change regarding the used wholesale service. Therefore, instead of the previous practice of performing services using the ULL or WLR+CPS+BSA wholesale services, new services are performed by using the ULL or NBSA wholesale service. In cases when the PVS is performed via ULL or via the wholesale WLR+CPS or WLR+CPS+BSA service, the income from PVS access is included in the category of income from PVS. However, in cases when the voice service is performed using the wholesale NBSA service, the access income is allocated and reported in the Internet income category, given that the whole service (both the voice service and the Internet service) has been provided through broadband Internet access. Regardless of the wholesale service used, the income deriving from voice minutes is always reported as PVS income.

went up by 1.7%. In line with the expansion trend in this segment and compared to the third quarter of 2015, Optima Telekom has had a 3.7% increase in revenue and a 4.0% increase in customer base in the final quarter of 2015.

The IPTV residential customers segment also increased its customer base, at annual and quarterly level alike. At annual level, the number of customers increased by 5.6% with a 7.9% revenue drop. A significant customer base expansion of as much as 13.7% was recorded in the fourth quarter, when revenues also increased by 4.0% (compared to the third quarter). This result was contributed by the introduction of the triple play package, having a lower monthly charge because it is realized through OT's ULL infrastructure. Even though the launch of these packages took place on 1 September 2015, i.e. in the third quarter, they achieved their full sales potential with the advertising campaign that ran in the fourth quarter of 2015.

b. Business Sales Segment

In the fourth quarter of 2015, the business segment made positive steps in customer base development compared to the previous period. The number of connections for public voice service, internet, data services and IPTV increased compared to the end of the third quarter of 2015 as a result of enhanced sales activities.

At annual level, there has been a more significant increase in the number of internet and data services connections and a mild drop in public voice service connections compared to the end of 2014.

The overall business segment revenue in the fourth quarter is 0.9% higher compared to the third quarter of 2015. However, at annual level, it is 4.5% lower compared to 2014.

A 3.6% revenue increase in the fourth quarter can be found in internet access services, with a simultaneous slight increase in the number of connections by 6.4%, which is a result of increased customer needs, a more attractive offer for a more advanced service having higher access speeds and enhanced sales activities in all business sales segments. At annual level, there has also been a positive growth trend in revenue of 5.8%, or 8.5% in the number of connections compared to the end of 2014.

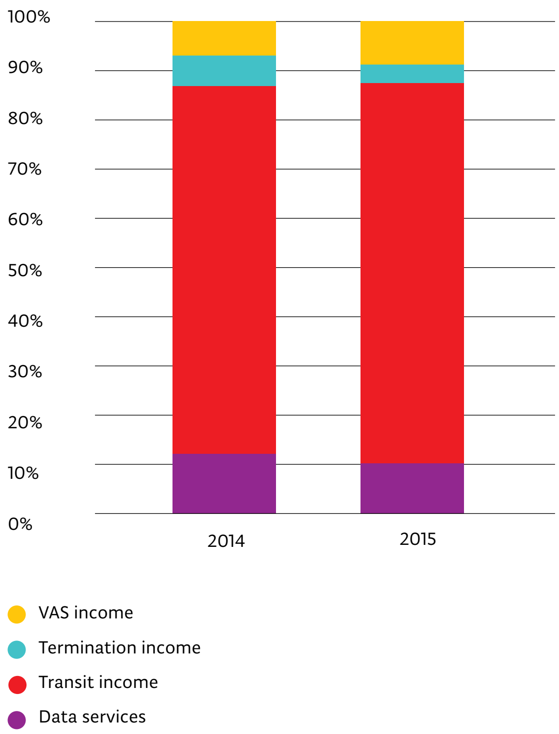
The number of active connections for public voice service customers in the business segment increased by 0.4% in the fourth quarter, while revenue dropped by 2.7% compared to the third quarter of this year. This is a result of the decrease in the number of minutes within the public fixed network, pressure concerning minute pricing and the quantity of minutes included in the basic monthly public voice service charge. The same trend can be detected at annual level as well, considering there was a 1.3% drop in the number of connections and 13.1% in revenue compared to the end of 2014.

Data services revenue went up by 6.5% in the fourth quarter as a result of an increase in the number of connections, which went up by 7.6% through the impact of connection activation arising out of successfully completed projects with two key customers. At annual level, there has also been a positive mild growth trend of 0.4% with a more significant, 16.0% increase in the number of connections. The number of connections did not have a great impact on increasing revenue due to pressure concerning service pricing.

In 2015, the wholesale sales revenue increased by 7.3% compared to the same period of the previous year. Within these, the wholesale voice services sales (transit) revenue increased by 11.2%. This increase is a result of regulatory changes, i.e. the deregulation of the interconnections charge in international calls originating outside the EU/EEA. The positive results of this effect are anticipated in the upcoming period as well. At the same time, the data services wholesale revenue drop is decreasing, so the 14.3% drop from the previous quarter went to 12.8%. The drop deceleration trend is also visible in termination revenue. It is 25.3% lower compared to the previous year. Termination revenue shall remain at the level from the second half of 2015.

In 2015, VAS service sales revenue increased by 30.7% compared to the same period of the previous year, as a result of an expansion of the biggest partner's business.

Interconnection Income Structure



Data Source: Company's business records

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks

In 2015, investments have been made into the voice network by obtaining additional licenses for NGN Switchboards due to the customer base growth.

An element of the voice network NGN system, SBC (Session Border Controller), has been procured, and in 2016, it will enable IP connecting of class IV IMS and NGN networks of other operators. This will allow for significant savings in the maintenance of existing class IV voice network systems.

A new, internally developed class V NGN switchboard, used for providing voice services to residential customers, has been deployed. This allows for additional savings in the process of obtaining licenses for NGN switchboards.

The class V Centrex system has been upgraded. It enables providing the virtual switchboard service, thus enhancing system reliability and ensuring high availability of the above mentioned service.

Data Networks

At the level of portable DWDM (Dense Wavelength Division Multiplexing) network, the Rijeka-Ljubljana-Zagreb (Vienna) system construction has been completed in 205. This reduces the Company's operating costs and opens new wholesale possibilities between Rijeka-Ljubljana-Zagreb and Rijeka-Ljubljana-Vienna.

In the towns of: Vrbovec, Zabok, Čepin, Cavtat, Samobor, Đurđevac, Beli Manastir, Imotski, Metković and Ploče new MPLS (Multiprotocol Label Switching) routing tables have been installed for the purpose of upgrading the MPLS core network capacity and raising the quality level, i.e. the accessibility of the network. A physical optimization of the IP/MPLS routing tables is underway in other cities, with a view to increase reliability. The optimization has been completed in 46 MPLS nodes out of a total of 60.

Capacities have been increased in order to satisfy the growing needs, so the core network capacity between ZG-ST has been enhanced to 2x10Gbps, while the internet upstream capacity went from 4x10Gbps to a total of 6x10Gbps.

Within the data center, new firewall systems with 10Gb/s interface have been installed, instead of the old systems having a 1Gb/s interface. Own VDSL capacities at over 100 nodes enabled VDSL rollout during the fourth quarter of 2015. In addition, a new BRAS system has been procured, thus multiplying capacities for the intake of new customers.

Network Infrastructure and Optical Fiber Network

Infrastructural development, i.e. the construction of the individual optical fiber network in 2015 consisted primarily of the regular construction of optical feeds to our new end wholesale and retail customers.

In numbers, we are talking about 67.7 km of new optical fiber network, consisting of 244 new optical feeds. The comparison of overall lengths shows a 2.29% enlargement of the fiber optic network. In total, it is 3,024.9 km compared to the 2,957.2 km achieved by the end of 2014. Most feeds and cable routes have been built in the Northern Region (30.2 km), followed by region South (16.4 km), and then regions West (15.8 km) and East (5.3 km).

Technical Services
In the technical services segment, paper work orders have been abolished. Being ecologically aware, Optima has switched to electronic assignment distribution only. This has increased internal efficiency and contributed towards preserving the environment.

Internal Application Development
In 2015 the Paperless web system has been developed, i.e. a single entry point for contracts concluded over the telephone (internal and partner telemarketing) and signed contracts (internal and partner D2D channel), as well as all the processes related to the provisioning agreement which cut down the average waiting period to service activation.
In addition, a system for predicting customer outflow has been implemented in production. It enables a proactive approach and keeping customers. The system will be upgraded during the upcoming year.
An invoicing management application has been put into development. It is intended to significantly decrease the error margin within the system caused by manual data entries.
Changes in the completion of LL migrations have been introduced as well, which will result in easier and more accurate following of migrations between customers.

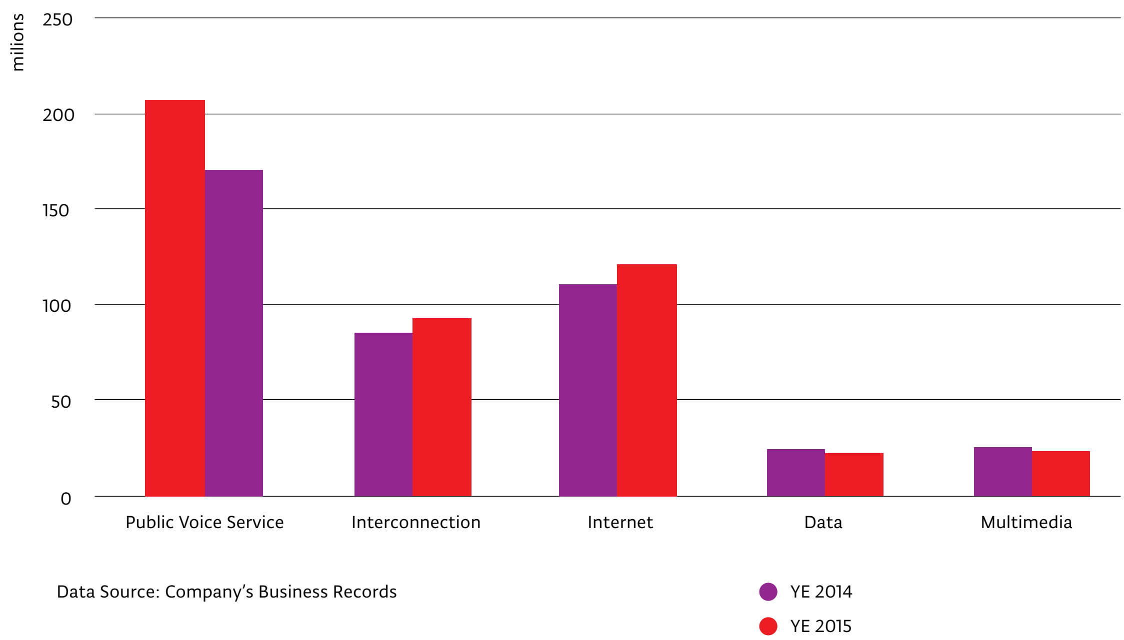
I. 7 Financial Results of the Group

Summary	2014	2015	2015 / 2014	Q4 2014	Q4 2015	Q4 2015 / Q4 2014
Total income	464.671	437.703	(5,8%)	113.084	105.322	(6,9%)
Total expenses	379.982	335.342	(11,7%)	78.578	77.312	(1,6%)
EBITDA	84.689	102.361	20,9%	34.506	28.009	(18,8%)
One time items	**3.042**	**4.029**	**32,4%**	**(13.731)**	**428**	**(103,1%)**
EBITDA before one time items	**87.731**	**106.390**	**21,3%**	**20.775**	**28.438**	**36,9%**
EBITDA margin before one time items	18,9%	24,3%	28,7%	18,4%	27,0%	47,0%
Depretiation	74.382	63.739	(14,3%)	17.066	5.981	(65,0%)
Financial result (net)	41.214	(25.863)	(162,8%)	21.083	(9.523)	(145,2%)
Income tax	286	83	(70,8%)	286	20	(93,0%)
Net profit/(loss)	51.235	12.676	(75,3%)	38.238	12.486	(67,3%)
One time financial result and depretiation	27.550		(100,0%)	(756)	0	(100,0%)
Net profit/(loss) before one time items	26.727	16.705	(37,5%)	25.263	12.914	(48,9%)

*For the financial results to be comparable year after year, the methodology has been changed so that single items not common in regular business operations have been removed.

a. Consolidated Revenue

Telecommunication Services Revenue



Data Source: Company's Business Records

Total telecommunications services revenue in 2015 dropped by 4.6% compared to the previous year. Observing the final quarter of 2015 alone, telecommunications services revenue dropped by 5.5% compared to the same period of the previous year

The revenue decrease is primarily due to the decrease in the number of public voice service users. Public voice service is showing a decreasing tendency at a global level, so the quantity of minutes realized in the public voice service is dropping continuously, which is reflected into a decrease of revenue from public voice service amounting to 17.7% compared to 2014. Observing the trends in the fourth quarter of 2015 only, this decrease amounted to 18.2% compared to the same period of the previous year.
On the other hand, the Company has achieved a 9.8% increase in revenue from Internet services and a 9.7% interconnection income increase, while the multimedia services income dropped by 7.5%. Observing the fourth quarter of 2015 compared to the same period of the previous year, Internet revenue increased by 12.2%, data services revenue by 4.6% while the multimedia services revenue drop decelerated and amounted to 4.2%.

b. Earnings before Interest, Taxation and Depreciation – EBITDA

The consolidated EBITDA is 20.9% higher compared to 2014. one time items aside, the EBITDA excluding one time items amounts to HRK 106.4 million, which represents a 21.3% increase compared to the previous year.

The implementation of cost restructuring has also had an impact on the EBITDA margin which, alongside the 5.8% revenue drop, went up from 18.9% at the end of 2014, to 24.3% at the end of 2015, which represents a 5.4 percentile increase.

Observing the final quarter of 2015 alone, the EBITDA excluding one time items increased by 36.9% compared to the final quarter of 2014. In absolute values, it increased from HRK 20.8 million from 2014 to HRK 28.4 million in the fourth quarter of 2015.

c. Net Profit / (Loss)

One time items from the previous and this year aside, and taking into account the rise in the USD exchange rate and the financial costs relating to the pre-bankruptcy settlement, as well as the positive effects of discounting financial obligations in 2014, the net financial result before one time items is down by HRK 10.0 million compared to the previous year. The net result before one time items of the fourth quarter of 2015 is HRK 12.3 million lower compared to the same period of 2014.

d. Capital Investments in 2015

Consolidated capital investments in 2015 amounted to HRK 48.4 million. Out of this, HRK 13.7 million has been invested in the development of access fiber optic network, expanding the collocations network, user equipment for providing the IPTV and Internet service for residential users, as well as the equipment to connect new business customers. HRK 17.1 million has been invested into the core network, which was used for the most part to further expand the core network to the 10G technology, while HRK 17.5 million have been invested in expanding the range of customer services.

	2015 (HRK)	share %
General Investments	**112.094**	**0%**
Capital Technical Investments	**48.305.028**	**100%**
ACCESS Network	13.691.937	28%
CORE Network	17.123.305	36%
Telecommunications Center	17.489.786	36%
Total	**48.417.121**	

e. Risk Management

Currency Risk Management
The currency risk is the risk that the value of financial instruments will change due to exchange rate changes. The Company's highest exposure to currency risk arises out of long-term loans, denominated in foreign currencies and recalculated into HRK applying the relevant exchange rates as per the balance sheet date. Any exchange rate differences shall be attributed to operating costs or recorded in the profit and loss account, but do not influence the cash flow.

Interest Risk
The Company's exposure to interest risk is not significant, given that the Company's liabilities have not been agreed subject to variable interest rates.
The remaining assets and liabilities, including issued bonds, are not exposed to interest risk.

Credit Risk
The credit risk is the risk that the other party will fail to meet its contractual obligations arising out of potential financial losses of the Group. The Group does not have a significant credit risk concentration with contractual parties possessing similar characteristics and has adopted procedures it applies in buyer transactions. The Group receives sufficient collaterals, if necessary, as a means to mitigate the risk of financial loss due to unfulfilled obligations and offers no guarantees for third party liabilities.
The Group sees its maximum exposure as reflecting in the amount of receivables from

debtors, minus value depreciation reservations recognized at the financial position report date.
Apart from this, the Group is exposed to the risk of money deposits in banks. Management of this risk is focused on dealing with the most reputable banks, both domestic and international, and in both the domestic and international markets, and based on daily contact with the banks.

Liquidity Risk Management
The Board of Directors holds the responsibility for liquidity risk management and sets the appropriate framework for liquidity risk management, with a view to manage short-term, mid-term and long-term financing and liquidity requirements. The Company manages the liquidity risk by maintaining adequate reserves and credit lines, continuously comparing the planned and achieved cash flow and monitoring the receivables and liabilities due dates.

II. Statement Regarding the Application of the Code of Corporate Governance

In accordance with articles 250a and 250b of the Companies Act, the Company has compiled the Annual Management Report on the Status and Business of the Company and the Group for 2015, which contains the Statement Regarding the Application of the Code of Corporate Governance.

In the course of its business, the Company is striving to adhere to the highest possible extent to the recommendations of the Code of Corporate Governance as published on the website of Zagrebačka Burza d.d., taking into account all the circumstances and specificities of its business organization.

The Company adheres to the recommendations in the Code of Corporate Governance with the exception of those provisions that cannot be considered practicable under the present circumstances:

— For those shareholders who are not able to vote in the General Meeting for whatever reasons, the Company has not provided proxies obligated to vote according to their instructions, with no extra costs. The shareholders unable to vote personally choose their own proxy who is obligated to vote according to their instructions.
— There is no decision on dividend payment or dividend advance, considering that the dividend has not been paid in 2015.
— During the General Meeting, the shareholders were not given the opportunity to vote using modern communications technology because this has not been provided in the Statute.

All the transactions involving the members of the Supervisory Board or their affiliated persons and the Company or its affiliates, have been stated in the Company's financial reports.
There are no specific internal rules regulating the work of the Supervisory Board. The relevant provisions of the Companies Act shall apply to the Supervisory Board's work. However, the Supervisory Board has established a Commission for monitoring the synergy measures, pursuant to the conditions of the cleared concentration between Hrvatski Telekom d.d. and the Company. The work of the said Commission is regulated by the conditions set forth in the Croatian Competition Agency's Decision, class: UP/I 034-03/2013-02/007, cons. no. 580-06/41-14-096 dated March 19, 2014.
The Supervisory Board does not have a majority of independent members as defined in the Code's recommendations. All Supervisory Board members have been elected in the Company's General Meeting, observing the procedure of declaring candidacies.
The Supervisory Board has a Commission for monitoring synergy measures, a Commission for Appointments and Rewarding (established 10.12.2015), and at the beginning of 2016, it set up an Audit Commission, with the task to analyze the financial reports in detail, support the Company's accounting and establish a good quality internal control of the Company.
The information on all income and remunerations that every member of the Board of Directors and Supervisory Board receives from the Company is published jointly for the Board of Directors and the Supervisory Board. Therefore, the Company has not published a separate Statement on Benefits for the Board of Directors and the Supervisory Board.
The Company executes internal auditing through internal procedures that include supervising the due fulfillment of obligations, so that within the scope of the Code of Corporate Governance there is no separate organizational unit dealing solely with internal auditing.
The amount of remunerations paid to external auditors for conducted audits and other provided services have not been disclosed by the Company, as this information has thus far been classified as confidential.

II. 1 Internal Audit in the Company and Risk Management in Correlation with Financial Reporting

At the beginning of 2016, the Supervisory Board has set up an Audit Commission, with the task to analyze the financial reports in detail, support the Company's accounting and establish a good quality internal control of the Company.

The Company does not have a separate organizational unit tasked solely with internal auditing, but the Company does have a corporate security organizational unit that works on minimizing all operating risks, among its regular activities.

II. 2 Significant Shareholders in the Company as per 31.12.2015

As per 31.12.2015, the Company's majority shareholder is Zagrebačka banka d.d., having a 40.32% share in the share capital. It is followed by Hrvatski Telekom d.d. with a 19.02% share in the share capital. The biggest shareholder among physical persons is Marijan Hanžeković, holding a 3.76% share.

II. 3 Rules on Appointment and Recall of the members of the Board of Directors and the Supervisory Board and Their Powers

The Company's affairs are managed by a Board of Directors consisting of three to five members. One of the members is appointed as the Chairman of the Board. The Board of Directors and the Chairman of the Board are appointed and recalled by the Supervisory Board. The members of the Board of Directors are appointed for a period of 2 years and can be reappointed. Pursuant to the Companies Act and the Statute, the Board of Directors is solely responsible for conducting the Company's business and has the power to undertake all actions and make such decisions as it deems necessary for successful management of the Company. The Board of Directors is obligated to observe the limitations set out in the Statute. Every member of the Board of Directors represents the Company jointly with another member of the Board of Directors.

The Supervisory Board consists of nine members, one of which is appointed by the employees. The General Assembly elects the Supervisory Board by an ordinary majority of votes, apart from the employee-appointed member. The mandate of Supervisory Board members is set at 4 years, and they can be re-elected. Supervisory Board members elect the Chairman and Deputy Chairman of the Supervisory Board amongst themselves. The Deputy Chair has the rights and obligations of the Chairman only when the Chairman is unable to carry out his/her function.

For specific transactions, or decisions of the Board of Directors, the Board of Directors is obligated to obtain the previous consent of the Supervisory Board, according to the criteria provided in Art. 15 of the Statute. Within its scope of activities, the Supervisory Board handles the tasks laid down by Art. 18 of the Statute.
In line with Art. 8 of the Statute, within five years from the registration of Statute amendments with the Court Registry, the Board of Directors is authorized to increase the Company's share capital once or several times by a total sum of one hundred and eighty Croatian Kuna (authorized capital). Such a share capital increase requires the Supervisory Board's consent.

Changes in the Company's Governing Bodies

II. 4

In 2015 there were no changes in the Supervisory Board, which continues ot have nine members, specifically: Siniša Đuranović, chairman, Ariana Bazala-Mišetić, deputy chairman and the members: Marina Brajković, Jasenka Anica Kreković, Marko Makek, Ana Hanžeković, Rozana Gregorinić, Maša Serdinšek and Ivica Hunjek.

On 1 April 2015, Irena Domjanović has been appointed a member of the Board of Directors, with a mandate of two years from the date of appointment. The Company's board of Directors now has 4 members: Zoran Kežman, chairperson, Mirela Šešerko, member of the Board, Irena Domjanović, member of the Board and Tomislav Tadić, member of the Board.

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Independent auditor's report

To the shareholders and Management Board of OT – Optima telekom d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of OT – Optima telekom d.d. and its subsidiaries (the 'Group') which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.com/hr

Report on Other Legal and Regulatory Requirements

We have read the accompanying Annual Report of the Group for the year ended 31 December 2015 set out on pages 1 to 23. We have verified that the information included in the Annual Report which describes matters that are also presented in the financial statements is consistent, in all material respects, with the financial statements referred to above.

PricewaterhouseCoopers d.o.o.
Zagreb, 16 February 2016

Our report has been prepared in Croatian and in English languages. In all matters of interpretation of information, views or opinions, the Croatian language version of our report takes precedence over the English language version.

OT-Optima Telekom d.d.

and Its Subsidiaries

Consolidated financial statements

At 31 December 2015

Together with Independent Auditor's Report

Contents

Page

Responsibility for the consolidated financial statements

Pursuant to the Accounting Act of the Republic of Croatia (Croatian Official Gazette nos.109/07, 54/13, 121/14), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('the IFRSs'), as adopted in the European Union, which give a true and fair view of the financial position and results of operations of OT-Optima Telekom d.d. and its subsidiaries (jointly referred to as: 'the Group').

After making appropriate enquiries, the Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to prepare the financial statements on a going-concern basis.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to assume that the Group will continue as a going concern.

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

The consolidated financial statements of the Group set out on pages 26 to 87 and the Annual Report set out pages 1 to 23 were approved by Mangement Board on 16 February 2016 and are signed below to singfiy this.

Zoran Kežman	Mirela Šešerko	Tomislav Tadić	Irena Domjanović
President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

OT-Optima Telekom d.d.
Bani 75a, Buzin
10010 Zagreb
Republic of Croatia

(All amounts are expressed in thousands of kunas)

	Notes	2015	2014 *Restated*
Sales	4	435,517	457,890
Other operating income	5	2,186	6,781
		437,703	**464,671**
Merchandise, material and energy expenses		(6,424)	(8,001)
Interconnection fee expenses		(144,402)	(152,698)
Rent of telecommunication equipment		(25,570)	(32,168)
Customer attraction expenses		(5,983)	(2,493)
Other service expenses	6	(62,688)	(69,584)
Staff costs	7	(55,457)	(74,186)
Own work capitalized		3,295	-
Depreciation, amortisation and impairment charges	8	(63,739)	(74,382)
Impairment charge on non-current and current receivables - net	9	(2,653)	1,848
Net loss on disposal of assets and equipment		-	(3,142)
Other operating expenses	10	(35,460)	(39,559)
		(399,081)	**(454,365)**
OPERATING PROFIT		**38,622**	**10,306**
Finance income	11	1,907	64,428
Finance costs	12	(27,770)	(23,213)
Finance costs - net		**(25,863)**	**41,215**
PROFIT BEFORE TAXATION		**12,759**	**51,521**
Income tax expense	13	(83)	(286)
PROFIT FOR THE YEAR		**12,676**	**51,235**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**12,676**	**51,235**
Earnings per share (in HRK)	21	0.20	0.81
Attributable to:			
The equity holders of the Group		12,676	51,235
Non-controlling interests			-

The accompanying notes form an integral part of these consolidated financial statements

Consolidated statement of financial position

At 31 December 2015

(All amounts are expressed in thousands of kunas)

	Notes	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
ASSETS				
Non-current assets				
Intangible assets	14	45,221	50,624	45,122
Property, plant and equipment	15	307,584	318,440	353,718
Given loans	16	312	158	-
Deposits	18	3,598	3,502	3,520
Available-for-sale financial assets		35	35	34
Other non-current assets	19	9,500	10,500	11,500
Total non-current assets		**366,250**	**383,259**	**413,895**
Current assets				
Inventories		109	1,455	1,344
Trade and other receivables	17	71,140	73,369	82,576
Given loans	16	10,767	10,767	-
Deposits	18	88	1,436	1,248
Prepaid expenses and accrued income	19	2,586	3,078	3,107
Cash and cash equivalents	20	20,418	25,954	67,924
Total current assets		**105,108**	**116,059**	**156,199**
TOTAL ASSETS		**471,358**	**499,318**	**570,094**

The accompanying notes form an integral part of these consolidated financial statements.

(All amounts are expressed in thousands of kunas)

	Notes	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
EQUITY AND LIABILITIES				
Equity				
Issued share capital	21	635,568	632,659	28,201
Capital gains	21	194,354	194,354	194,354
Other equity (MCL)	21	32,904	41,129	-
Foreign-exchange translation reserve		6	29	22
Accumulated losses		(819,793)	(830,251)	(881,486)
Total equity		**43,039**	**37,920**	**(658,909)**
Long-term borrowings	22	209,303	208,011	3,371
Issued bonds	23	71,085	70,204	-
Trade payables	24	10,155	43,174	9,199
Provisions		62	-	-
Deferred income	26	21,835	20,662	22,815
Total non-current liabilities		**312,440**	**342,051**	**35,385**
Short-term borrowings	22	434	2,540	613,383
Issued bonds	23	-	351	293,688
Trade payables	24	91,514	94,167	257,248
Provisions		509	2,432	2,477
Accrued expenses and deferred income	26	17,406	11,998	10,703
Other current liabilities	25	6,016	7,859	16,119
Total current liabilities		**115.879**	**119,347**	**1,193,618**
TOTAL EQUITY AND LIABILITIES		**471,358**	**499,318**	**570,094**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2015

(All amounts are expressed in thousands of kunas)

	Issued share capital	Capital gains	Other reserves	Foreign exchange translation reserve	Accumulated losses	Total
Balance at 1 January 2014	**28,201**	**194,354**	**-**	**22**	**(881,486)**	**(658,909)**
Increase of share capital based on pre-bankruptcy settlement agreement	535,587	-	110,000	**-**	-	645,587
Conversion of MCL to equity (*Restated) – Note 3.3*	68,871	-	(68,871)	**-**	-	-
Other comprehensive income – foreign exchanges differences		-	-	7	-	7
Profit for the year (Restated)	-	-	-		51,235	**51,235**
Total comprehensive income for the year (Restated)	-	-	-	*7*	*51,235*	*51,242*
Balance at 31 December 2014 *(Restated)*	**632,659**	**194,354**	**41,129**	**29**	**(830,251)**	**37,920**
Increase of share capital based on pre-bankruptcy settlement agreement	2,909	-	-	**-**	-	2,909
Repayment of Mandatory Convertible Loan	-	-	(8,225)	**-**	-	(8,225)
Interest on MCL					(2,218)	(2,218)
Other comprehensive income – foreign exchanges differences	-	-	-	(23)	-	(23)
Profit for the year	-	-	-		**12,676**	**12,676**
Total comprehensive income for the year	-	-	-	*(23)*	*12,676*	*12,653*
Balance at 31 December 2015	**635,568**	**194,354**	**32,904**	**6**	**(819,793)**	**43,039**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2015

(All amounts are expressed in thousands of kunas)

	Notes	2015	2014 *Restated*
Operating activities			
Total profit for the year		12,759	51,521
Adjusted by:			
Depreciation and amortisation		63,739	74,382
Interest income	11	-	(41,425)
Interest expense	12	27,416	20,107
Net (gain) loss on sale of non-current assets		-	3,142
Net impairment of trade receivables		205	2,558
Reversal of impairment of loan receivables		-	(10,767)
Income from liability write-off		-	(19,452)
Net exchange differences	11, 12	(643)	(534)
Decrease/(increase) in inventories		1,346	(111)
Decrease in trade and other receivables		8,840	8,501
Increase/(decrease) in trade payables and other liabilities		(36,753)	(39,310)
Decrease in provisions		(1,923)	-
Other non-cash items		(23)	7
Cash generated from operating activities		74,963	49,619
Interest paid		(12,701)	(11,599)
Net cash flows from operating activities		**62,262**	**37,020**
Cash flows from investing activities			
Payments for property, plant and equipment		(35,471)	(32,550)
Proceeds from sale of property, plant and equipment		-	5,828
Given loans		(101)	(289)
Net cash used in investing activities		**(35,572)**	**(27,011)**
Cash flows from financing activities			
Repayment of finance lease liability and borrowings		(1,269)	(36,563)
Repayment of content contracts		(20,514)	(15,416)
Repayments of MCL interest		(2,218)	-
Repayments Mandatory convertible loan		(8,225)	-
Net cash used in financing activities		**(32,226)**	**(51,979)**
Net decrease in cash and cash equivalents		**(5,536)**	**(41,970)**
Cash and cash equivalents at 1 January		25,954	67,924
Cash and cash equivalents at 31 December	20	**20,418**	**25,954**

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

1.1. Corporate information

OT-Optima Telekom d.o.o. (“OT” or 'the Company'), is a joint stock company whose top shareholders are listed in Note 21. Even though Hrvatski Telekom (“HT”) is not majority shareholder it controls OT-Optima Telekom via agreement with Zagrebačka banka d.d. by which HT obtained managerial rights and thus the ultimate controlling parent is Deutsche Telekom AG.

The registered office address of the Company is Bani 75a, Buzin, Zagreb, Croatia.

The consolidated financial statements for the financial year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Management Board.

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

1.2. Principal activities

The principal activity of the Company is provision of telecommunication services to private and business users on the Croatian market. The Company launched its telecommunication services in May 2005. OT-Optima Telekom's initial focus was the business segment. However, shortly after the launch, it also began to target the residential market with its voice packages. For business users, The Company provides direct access and Internet services as well as voice service via its own network and/or carried preselected services. In addition, the Company's flagship corporate services are its IP Centrex solution, which is a first in the Croatian market, and its IP VPN services. The Company's existing facilities also allow it to provide co-location and hosting.

On 6 July 2006 OT-Optima Telekom d.d. became the sole owner of Optima Grupa Holding d.o.o., a company renamed to Optima Direct d.o.o. on 23 September 2008. The principal activity of Optima Direct d.o.o. comprises trade and provision of various services mostly from within the scope of the telecom industry. In August 2008 the Company increased the share capital of Optima Direct d.o.o. by HRK 15,888 thousand as a result of a debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest.
The Company set up, as sole owner, Optima Telekom d.o.o., Koper, Slovenia in 2007.
On 16 August 2011 the Company established, as the sole owner, Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., a real estate management and consultancy company, which did not operate during the reporting period and is still dormant.

The ownership structure at 31 December 2014 and 2015 is set out below:

Parent

OT-Optima Telekom d.d.

Subsidiaries	**Ownership percentage**
Optima Direct d.o.o., Croatia	100 %
Optima Telekom d.o.o., Slovenia	100 %
Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o.	100 %

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

1.3. Employees

At 31 December 2015, there were 347 persons employed at the Group (2014: 406 employees).

1.4. Management and Supervisory Boards

In 2015 and 2014 members of the Management Board were as follows:

Zoran Kežman	President
Mirela Šešerko	Member
Tomislav Tadić	Member
Irena Domjanović	Member (since 1 April 2015)

In 2015 and 2014 members of the Supervisory Board were as follows:

Siniša Đuranović	President
Ariana Bazala-Mišetić	Member and Deputy Chairperson
Marina Brajković	Member
Jasenka Anica Kreković	Member
Marko Makek	Member
Ana Hanžeković	Member
Rozana Grgorinić	Member
Maša Serdinšek	Member
Ivica Hunjek	Member

1. GENERAL INFORMATION (CONTINUED)

1.5. Going concern

In 2014, as part of the implementation of the Pre-bankruptcy Settlement Agreement ("PSA") reached before the Commercial Court in Zagreb on 30 April 2014 (case file no. Stpn-354/13), the Parent Company changed its ownership and governance structures as well as increased its share capital (Note 21).

According to the PSA, the Parent Company, as the Issuer, has to meet significant monetary obligations to its pre-bankruptcy creditors over several years and within strictly defined time frames. Based on the current liquidity of the Issuer, the settlement of such (old) liabilities is not under any threat.The Company has fullfiled all of its obligations in 2015 in accordance with the PSA. However, should the liquidity become impaired, a risk of the inability to service the liabilities could arise, in which case the creditors would be entitled to initiate directly enforced collection of the debt through the Financial Agency based on the PSA qualifying as an enforcement title. Management considers that the above factors have minimized liquidity risk and related uncertainty, and these financial statements have been prepared on a going concern basis.

The consolidated financial statements have been prepared under the assumption that the Group will continue its operating activities according to the going concern principle. As at 31 December 2015, the cumulative losses of the Group amount to HRK 817,575 thousand (2014: HRK 830,251 thousand), and current liabilities exceed current assets by HRK 8,913 thousand (2014: HRK 3,288 thousand). Our reinforced focus on providing Internet access services, which represents the base of our future business, on one side and savings achieved through the restructuring process on the other side, resulted with growth of the operating profit in 2015 to HRK 38,622 thousand (2014: HRK 10,309 thousand). Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRSs')

2.1. New and amended standards adopted by the Group:

The Group has adopted the following new and amended standards for their annual reporting period commencing 1 January 2015 which were endorsed by the European Union and which are relevant for the Group's financial statements:

- *Annual Improvements to IFRSs – 2010 – 2012 Cycle comprising changes to seven standards (IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 28 and IAS 24).*
- *Annual Improvements to IFRSs – 2011 – 2013 Cycle comprising changes to four standards (IFRS 2, IFRS 3, IFRS 13 and IAS 40).*
- *Defined Benefit Plans: Employee Contributions - Amendments to IAS 19*

The adoption of the improvements did not have any impact on the current period or any prior period and is not likely to affect future periods.

2.2. New standards and interpretations not yet adopted:

Certain new standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group.

None of these standards and interpretations are expected to have significant effect on the Group's financial statements, except for the following standards:

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on o rafter 1 January 2018)*

  IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now compete.

  The Group assessed the impact of the new standard IFRS 9 on its financial statements as follows:

  - The Group does not expect any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities.
  - There will also be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.
  - The new hedging rules will not impact the Group since it does not have any hedging arrangements.
  - The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The Group has not yet assessed how its impairment provisions would be affected by the new rules.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRSs') (CONTINUED)

2.2. New standards and interpretations not yet adopted (continued):

The Group plans to adopt the standard on its effective date and when endorsed by the European Union.

- *IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

  The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services, and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

  Key changes to current practice are:

  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements;
  - Revenue may be recognised earlier than under current standards if the consideration varies for any reasons;
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa; and
  - As with any new standard, there are also increased disclosures.

  Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

  The Group plans to adopt the standard on its effective date and when endorsed by the European Union. Like many other telecommunications companies, the Group currently expects this standard to have a significant impact on the Group's financial statements, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a customer contract and contract fulfilment costs. The Group's operations and information systems are complex, and the Group has started the necessary efforts in 2015 to develop and implement new accounting policies, estimates and processes to comply with this new standard. Such effort is expected to continue through the end of 2016. As a result, at this time, it is not possible to make a reasonable quantitative estimate of the effects of this new standard on the Group's current revenue recognition policies.

- *IAS 27 amendments, Equity method in separate financial statements* (*effective for annual periods beginning on or after 1 January 2016)*

  IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates), and such election should be applied so retrospectively. The Group does not expect to change the method of accounting for investments in subsidiaries in their separate financial statements. The Group plans to adopt this amendment on its effective date and when endorsed by the European Union.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRSs') (CONTINUED)

2.2. New standards and interpretations not yet adopted (continued):

- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)*

  The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases of finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of this new standard on its financial statements. The Group plans to adopt the standard on its effective date and when endorsed by the European Union.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of preparation

The financial statements of the Group have been prepared on the historical cost convention, in accordance with International Financial Reporting Standards as endorsed by European Union (EU).

The Group maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) as endorsed by EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4. These consolidated financial statements have been prepared under the assumption that the Group will continue as a going concern.

Some of the financial captions have been reclassified in these financial statements compared to the prior year, as the management is of the opinion that the reclassification provides a better presentation of the financial statements as a whole (Note 3.4).

The accounting policies are consistently applied by all the Group entities.

The financial statements are presented in Croatian kunas. At 31 December 2015, the official exchange rate of the Croatian kuna was HRK 7.635047 against 1 euro and HRK 6.991801 against 1 US dollar (31 December 2014: HRK 7.661471 for EUR 1 and HRK 6.302107 for USD 1).

3.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it (its subsidiaries). Control is present when the Company has the power to manage financial and operational policies of the investee so as to derive benefits from its operations. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of the disposal.

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All significant intragroup transactions, balances, income and expenses have been eliminated on consolidation.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Correction of errors in prior period financial information

a) *Discount of content contract liabilities*

In previous periods, the Group did not discount the amount of long-term liabilities and intangible assets arising from content contracts upon initial recognition (some purchases of content took place during 2014 and some before 1 January 2014.

Also the classification of the liability was adjusted as it was improperly clasisifed as long-term, rather than as short-term.

b) *Mandatory convertible loan (MCL) classification*

In 2015, the Company undertook a detailed review of MCL arrangement and discovered that the terms and conditions of the agreement concluded in 2014 had been misinterpreted. The Company has the option, but not a contractual obligation, to settle the MCL arrangement with cash payments and both parties have a conversion option to settle the loan in shares of Optima at the same fixed exercise price at any time over the contractual period of the loan; the conversion option is an equity instrument. The cash settlement option was concluded to be a non-substantive feature of the instrument as the conversion option wll always be in-the-money for one of the parties of the agreement. As a consequence, in prior periods, the MCL had been incorrectly accounted for as non-current liability rather than as an a component of equity. As the fair value of the instrument was equal to its carrying amount as at the date when the instrument was issued, there was no impact on profit or loss on the transfer to equity.

c) Accounting for long-term pre-bankruptcy settlement liabilities

As the result of the pre-bankruptcy agreement, the terms of the certain liabilities (bank borrowings, bond liabilities and trade payables) have been renegotiated which resulted in the substantial modification of the terms of these instruments (10% NPV test required by IAS 39 AG 62). Therefore the original liabilities have been derecognied and the new liabilities had been recognised. IAS 39 requires the recognition of the new liability at the fair value. Determining the fair value, the Group did not appropriately discount these financial obligations (, i.e. bank borrowings, bond liabilities and trade payables). Bank borrowings and issued bonds liabilities were not discounted while trade payables liabitlies were discounted using an incorrect payment schedule. Due to the fact that the pre-bankruptcy settlement was concluded in April 2014 there is no effect on balances as at 1 January 2014. The correction of the initial measurement of these liabilities resulted in the recognition of the gain of HRK 41 425 thousand which was recognised in finance income, also the finance cost were adjusted to reflect the correction of of un-winding previously incorrect discount on trade payables and other operating income were adjusted to reflect the correction in classification of discount made on trade payables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Correction of errors in prior period financial information (continued)

d) *Re-Classification of borrowing to “trade payables and other liabilities”*

In previous periods, the Group incorrectly classified certaintrade payables to suppliers, which were renegotiated in the process of pre-bankruptcy proceedings as borrowings rather than long-term “trade payables and other liabilities” with extended payment terms or short term “trade payables and other liabilities.

e) *Classification in the statement of financial position*

In previous periods, the Group did not offset certain receivable and payable balances that should have been offseted, and incorrectly presented the maturity of financial assets in the statement of financial position.

The above identified errors have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Correction of errors in prior period financial information (continued)

- Statement of comprehensive income

Position	2014 As reported	Correction of error - content (a)	Correction of error - MCL (b)	Correction of error – liabilities discount (c)	Correction of error – payables classification (d)	Correction of error - maturity and reclassification (e)	2014 Before reclassification (See Note 3.4)
Depreciation and amortization	76,750	(2,368)	-	-	-	-	74,382
Finance costs	23,038	2,368	-	(2,193)	-	-	23,213
Finance income	(25,175)	-	-	(41,425)	-	-	(66,600)
Other operating income	(30,166)	-	-	11,864	-	-	(18,302)
Profit for the year	(19,481)	-	-	(31,754)	-	-	(51,235)

Earnings per share for 2014 as reported were HRK 0,31 while earnings per share for 2014 as resated is HRK 0,81.

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Correction of errors in prior period financial information (continued)

- Statement of financial position

	1 January 2014 As reported	Correction of error - content (a)	Correction of error - MCL (b)	Correction of error – liabilities discount (c)	Correction of error – payables classification (d)	Correction of error - maturity and reclassification (e)	1 January 2014 Restated
Position							
Intangible assets	51,432	(6,310)	-	-	-	-	45,122
Other non-current assets	-	-	-	-	-	11,500	11,500
Trade and other receivables	86,333	-	-	-	-	(3,757)	82,576
Prepaid expenses and accrued income	14,607	-	-	-	-	(11,500)	3,107
Non-current trade payables	(33,122)	23,923	-	-	-	-	(9,199)
Trade payables	(239,635)	(17,613)	-	-	-	-	(257,248)
Accrued expenses and deferred income - current	(14,460)	-	-	-	-	3,757	(10,703)

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Correction of errors in prior period financial information (continued)

- Statement of financial position

	31 December 2014 As reported	Correction of error - content (a)	Correction of error - MCL (b)	Correction of error – liabilities discount (c)	Correction of error – payables classification (d)	Correction of error - maturity and reclassification (e)	31 December 2014 Restated
Position							
Intangible assets	60,764	(10,140)	-	-	-	-	50,624
Other non-current assets	-	-	-	-	-	10,500	10,500
Non-current financial assets	14,423	-	-	-	-	(10,763)	3,660
Trade and other receivables	77,059	-	-	-		(3,690)	73,369
Current financial assets	1,440	-	-	-	-	10,763	12,203
Prepaid expenses and accrued income	13,578	-	-	-	-	(10,500)	3,078
Equity – other reserves	-	-	(41,129)	-	-	-	(41,129)
Equity – accumulated losses	862.005	-	-	(31,754)	-	-	830.251
Long-term borrowings	(330,016)	-	41,129	26,958	57,040	(3,122)	(208,011)
Issued bond	(75,351)	-	-	4,796	-	-	(70,555)
Non-current trade payables	(41,369)	27,610	-	-	(29,415)	-	(43,174)
Accrued expenses and deferred income – non-current	(22,457)	-	-	-	-	1,795	(20,662)
Short-term borrowings	(5,662)	-	-	-	-	3,122	(2,540)
Trade payables	(49,072)	(17,470)	-	-	(27,625)	-	(94,167)
Accrued expenses and deferred income - current	(13,893)	-	-	-	-	1,895	(11,998)

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Correction of errors in prior period financial information (continued)

- Statement of cash flow

	2014 As reported	Correction of error - content (a)	Correction of error - MCL (b)	Correction of error – liabilities discount (c)	Correction of error – payables classification (d)	Correction of error - maturity and reclassification (e)	2014 Restated
Position							
Profit for the year	19,481	-	-	31,754	-	-	51,235
Depreciation and amortization	76,750	(2,368)	-	-	-	-	74,382
Interest expense	-	2,368	-	4,747	-	12,992	20,107
Intrerest income	-	-	-	(41,425)		-	(41,425)
Repayment of borrwings	(61,74)8	-	-	4,924	30,348	(10,087)	(36,563)
Increase/(Decrease) in trade payables and other liabilities	(5,847)	(6,199)	-	-	(35,958)	8,694	(39,310)
Repayment of content contracts	-	-	-	-	(15,416)	-	(15,416)
Payments for property, plant and equipment	(59,775)	6,199	-	-	21,026	-	(32,550)
Interest paid	-	-	-	-	-	(11,599)	(11,599)

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Reclassifications

In 2015, the Group has changed the presentation of certain items within the statement of financial position, statement of comprehensive income and statement of cash flows. The Group considers that the new classification provides users with more reliable and relevant information. In order to reconcile the presentation of comparable data with data presented in 2015, financial statement line items of comprehensive income were reclassified as follows:

	2014 As reported	Impact of change (reclassification)	2014 Restated
Sales income	456,210	1,680	457,890
Other operating income	18,302	(11,521)	6,781
Merchandise, material and energy expenses	-	(8,001)	(8,001)
Rent of telecommunication equipment	(38,176)	6,008	(32,168)
Other service expenses	-	(69,584)	(69,584)
Staff costs	(74,276)	90	(74,186)
Provision of trade receivables - net	(3,503)	5,351	1,848
Net loss on disposal of assets and equipment	(3,537)	395	(3,142)
Other operating expenses	(117,313)	77,754	(39,559)
Financial income	66,600	(2,172)	64,428

Majority of reclassification in sales income relates to reclassified income from interest from customers on late payments from Financial income to sales income in amount of HRK 2,173 thousand.

Income from collection of value adjusted receivables in amount of HRK 11,528 thousand was reclassified from other operating income to provision of trade receivables and write off of receivables in amount of HRK 6,177 thousand from other operating expenses to be presented net with impairment allowance.

Merchandise, material and energy expenses were extracted from other operating expenses in amount of HRK 8,001 thousand also as were service expenses in amount of HRK 69,584 thousand while rent of premises and operating leases in amount of HRK 6,008 thousand were reclassified from rent of telecommunication equipment to other operating expenses.

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Change of accounting estimates

Revision of useful lives of plant and equipment

During the year the estimated total useful lives of certain items of plant and equipment used in operations were revised. The net effect of changes in the current financial year was a decrease in depreciation expense of HRK 9,110 thousand.

Assuming the assets are held until the end of their estimated useful lives, depreciation in future years in relation to these assets will be increased by the following amounts:

Year ending 31 December

2016	(160)
2017	3,253
2018	3,536
2019	3,287

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized in the event that the future economic benefits that are attributable to the assets will flow to the Group, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured on a straight-line basis over the best estimate of their useful life. The amortization method is reviewed annually at each financial year-end.

Intangible assets includes right to provide telecommunication services, licenses and concessions to operate different types of telecommunication services and are carried at cost less accumulated amortisation and any accumulated impairment losses.

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

The economic life of the right, concession and licenses to operate telecommunication services is determined based on the underlying agreements and amortized on a straight line basis over the period from the moment when it has been approved by the regulator until the end of the initial right, concession or license term. No renewal periods are considered in determining the economic life.

The right to provide telecommunication services is given for period of 30 years, while licenses and concessions are valid 4 years.

The IPTV programme distribution rights are recognised as part of intangible assets at the inception of the contract period. In order for the contracts with the content providers to qualify as intangible assets, they should meet the following requirements:

- the period of the contract must be longer than one year,
- the cost must be identified or identifiable,
- the contractual rights must be permanent, and
- the contracts costs are inevitable.

Assets recognised under those contracts are amortised over the period of the underlying operating agreement. Content contracts which do not meet the criteria for capitalization are expensed and presented in “other expenses” in the statement of comprehensive income. Other intangible assets refer to software license and it is carried at cost less accumulated amortisation and any accumulated impairment loss.

Useful lives of intangible assets are as follows:

Licences and rights	30 years
Software	5 years
Content	1,5-5 years

Assets under construction are not amortized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment loss, except for land, which is carried at cost.

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

Property, plant and equipment in use are depreciated on a straight-line basis using the following rates.

	2015	**2014**
Buildings	40 years	40 years
Vehicles	5 years	5 years
Plant and equipment	5 to 20 years	5 to 20 years
Office equipment	4 years	4 years
CPE equipment	7 years	7 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimates accounted for on a prospective basis.

The cost of property, plant and equipment comprises the invoiced amount, including import duties and non-refundable taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Expenditure incurred after putting an item of property, plant and equipment into use, such as those incurred in the repair, maintenance and overhaul, is charged to expenses for the period in which it is incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase of future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, they are capitalised, i.e. added to the cost of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.8. Impairment of non-financial assets

Items of property, plant and equipment and of intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Impairment of non-financial assets (continued)

At each date of the statement of financial position, the Group reviews the carrying amounts of its property, plant and equipment, and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that an asset may be impaired.

The recoverable amount of an asset is the greater of the asset's fair value price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The net realisable value is the amount obtainable from the sale of an asset in an arm’s length transaction less selling expenses, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life determined using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less that its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense, unless the relevant asset is a piece of land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a fair value decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.9. Cash and cash equivalents

Cash and cash equivalents consists of balances with banks and in hand. Cash equivalents comprise demand deposits and term deposits with original maturities of up to three months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10. Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to expenses for the period in which they arise, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are expensed in the period in which they arise.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.11. Inventories

Inventories comprise mainly spare parts for telecommunication equipment, other spare parts office supplies and are stated at the lower of cost and net realisable value. Management provides for inventories based on a review of the overall ageing of all inventories and a specific review of significant individual items included in inventories.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Trade and other receivables

Trade receivables are amounts due form custoers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivcables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.
A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired. Value adjustment is done according to the collection estimate. Receivables are written-off in the case when the debtor is liquidated or ceased its business activities; when the legal case is lost by the final court decision or in the case of lapse of receivables.

3.13. Foreign currencies

The Group's functional currency is the Croatian Kuna (HRK). The financial statements of the Group are presented in the currency of the primary economic environment in which the Group operates (its functional currency). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items available for sale in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

3.14. Retirement and long-service benefits

The Group provides to its employees long-service and one-off benefits upon their retirement. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The pension obligation is measured at the present value of estimated future cash flows using an average discount rate on long-term government bonds. The currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred taxes are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has the ability and intention to settle on a net basis.

Current and deferred taxes for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred taxes are also recognised outside the profit or loss.

3.16. Provisions

Provisions are recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources empodyiong economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17. Financial assets

The Group classifies its financial assets in the following categories: available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method, less any impairment. Impairment testing of loans and receivables is described in Note 3.14.Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17. Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.18. Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt to equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Other financial liabilities, including borrowings and bonds, are measured initially at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.19. Trade payables

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

3.20. Contingencies

Contingent assets are not recognized in the financial statements. They are disclosed when an inflow of economic benefits is probable.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21. Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits associated with a transaction will flow into the Group and when the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

Service sales are recognized net of value-added tax and discounts after the services have been provided.

Revenue from fixed telephony includes revenue from activation, monthly fee, calls placed by fixed line subscribers and revenue from additional services in fixed telephony.

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

Revenue from internet and date services included revenue from Internet subscription, ADSL traffic and fixed line access. Multimedia services include revenue from activation, monthly fee and add on services from IPTV users.

Rental income and income from sale of goods relate to the rental and sale of telecommunications equipment required to provide telecommunication services.

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

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

3.22. Interconnection fee expenses

Interconnection fee expenses for using telecommunication infrastructure of other telecommunication providers are recognized in the period in which they are incurred. The revenues and costs are stated gross in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23. Operating segment reporting

International Financial Reporting Standards define an operating segment as a component of an entity:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
c) for which discrete financial information is available.

The business reporting format of the Group for purpose of segment reporting is determined to be Residential, Business and Support Function as the Group's risks and rates of return are affected predominantly by differences in the market and customers.

3.24. Subsequent events

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

3.25. Earnings per share

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

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26. Critical judgements in applying accounting policies

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Useful life of property, plant and equipment

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

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

	Increase/ decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2015	+10	5,7
	-10	(5,7)
Year ended 31 December 2014	+10	7,6
	-10	(7,6)

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realised. In determining the amount of deferred taxes that can be recognised significant judgements are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy.

4. SEGMENT INFOMRATION

The business reporting format of the Group for purpose of segment reporting is determined to be Residential, Business and Support Function 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 fixed line telecommunications and TV distribution and services to residential customers.

The Business Segment includes marketing, sales and customer services, focused on providing fixed line telecommunications to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business.
Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. 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 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.

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFOMRATION (CONTINUED)

Residential and Business segments

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

Year ended 31 December 2014	Residential	Business	Support functions	Total
Service revenue	282,048	175,842	-	457,890
Usage related direct costs	(171,713)	(97,026)	-	(268,739)
Contribution margin	110,335	78,816	-	189,151
Non-usage related direct costs	(30,428)	(9,245)	(65,797)	(105,470)
Other income	-	-	6,783	6,783
Other operating expenses	-	-	(5,776)	(5,776)
Depreciation, amortization and impairment of non-current assets	-	-	(74,382)	(74,382)
Operating profit	**79,907**	**69,571**	**(139,172)**	**10,306**

Year ended 31 December 2015	Residential	Business	Support functions	Total
Service revenue	256,302	179,215	-	435,517
Usage related direct costs	(148,486)	(96,838)	-	(245,324)
Contribution margin	107,816	82,377	-	190,193
Non-usage related direct costs	(31,171)	(10,079)	(44,455)	(85,705)
Other income	-	-	2,186	2,186
Other operating expenses	-	-	(4,313)	(4,313)
Depreciation, amortization and impairment of non-current assets	-	-	(63,739)	(63,739)
Operating profit	**76,645**	**72,298**	**(110,321)**	**38,622**

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFOMRATION (CONTINUED)

Revenue by geographical area

	2015	2014
Republic of Croatia	365,365	406,545
Rest of world	70,152	51,345
	435,517	**457,890**

5. OTHER OPERATING INCOME

	2015	2014 *Restated*
Income from penalties charged	1,578	2,595
Other income	608	4,188
	2,186	**6,783**

6. OTHER SERVICE EXPENSES

	2015	2014 *Restated*
Telecommunication service costs	51,333	56,500
Invoicing expenses	3,893	4,648
Cleaning services	476	433
Intellectual services	991	2,250
Postal services	942	1,317
Bank services	593	618
Other service expenses	4,460	3,818
	62,688	**69,584**

(All amounts are expressed in thousands of kunas)

7. STAFF COSTS

	2015	2014
Net salaries	29,104	31,721
Taxes and contributions	20,997	24,381
Redundancy expenses	4,029	15,573
Long-term employee benefits	(1,861)	(45)
Reimbursement of costs to employees	3,188	2,556
	55,457	**74,186**
Number of staff at 31 December	347	406

Costs reimbursed to employees comprise daily allowances, overnight accommodation and transport related to business travels, commutation allowance, and reimbursement of costs for the use of personal cars for business purposes, and similar.

Long-term employee benefits comprise benefits payable under the Collective Agreements, such as vacation bonus, jubilee awards, Christmas bonus, various supports, and similar. Taxes and contributions at the Group included HRK 8,981 thousand (2014: HRK 9,815 thousand) of pension contributions paid to the mandatory state pension fund. Contributions are calculated as a percentage of the employees' gross salaries.

8. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

	2015	2014 *Restated*
Depreciation	41,695	51,852
Amortisation	22,044	21,664
Impairment charge - tangible assets	-	866
	63,739	**74,382**

9. IMPAIRMENT CHARGE OF NON-CURRENT AND CURRENT RECEIVABLES

	2015	2014 *Restated*
Impairment charge on current and non-current receivables	2,313	3,503
Write-off of current and non-current receivables	3,627	6,177
Collection of current and non-current receivables	(3,287)	(11,528)
	2,653	**(1,848)**

(All amounts are expressed in thousands of kunas)

10. OTHER OPERATING EXPENSES

	2015	2014 *Restated*
Maintenance costs	13,905	18,517
Marketing services	6,161	5,957
Rent	5,937	6,008
External labour costs	5,610	3,433
Insurance premiums	1,192	1,395
Taxes and contributions independent of the results	939	1,027
Entertainment	263	614
Sponsorships	166	613
Residential sales services	5	343
Other operating expenses	1,282	1,652
	35,460	**39,559**

11. FINANCIAL INCOME

	2015	2014 *Restated*
Interest income	-	41,425
Written-off financial liabilities /i/	674	19,452
Foreign exchange gains	940	534
Other financial income	293	3,017
	1,907	**64,428**

/i/ Income from written off financial liabilities in 2014 comprises mainly of interest past due on the issued bond written off according to the pre-bankruptcy settlement in the amount of HRK 19,219 thousand.

12. FINANCIAL EXPENSES

	2015	2014 *Restated*
Interest expenses	27,416	20,107
Value adjustment of financial assets	**-**	3,065
Exchange losses	297	-
Other financial expenses	57	41
	27,770	**23,213**

The interest expense comprises interest charges on loans, borrowings and issued bonds.

(All amounts are expressed in thousands of kunas)

13. INCOME TAX

The Group is subject to income tax, which is determined according to the laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses for the period, increased by tax non-deductible expenses. The corporate income tax in Croatia is 20 % (in Slovenia it is 17 %). Optima Telekom d.d. had no corporate income tax liability for 2014 because of the losses carried forward. Subsidiary OT-Optima Telekom d.o.o., Koper have a corporate income tax liability for 2015 and 2014 based on their operating profits for the year.

The relationship between the accounting profit and tax losses carried forward can be shown as follows:

	2015	**2014**
Accounting profit/(loss) before taxation	**12,759**	**51,521**
Theoretical income tax at 20%	2,552	10,304
Effect of expenses not deductible for tax purposes	305	4,218
Effect of non-taxable income	-	(333)
Effect of utilised loss from previous periods for wihich DTA was not recongised	(2,774)	(13,903)
Income tax charge	**83**	**286**
Effective tax rate	0,65%	0,56%

Tax losses available for carry forward are presented below:

Year incurred	**Amount**	**Year of expiry**
2011	67,737	2016
2012	48,201	2017
2013	31,828	2018
	147,766	

Deferred tax assets of HRK 29,553 thousand (2014: HRK 42,385 thousand) thousand has not been recognised in these consolidated financial statements with respect to the tax losses available for carry forward because their availability for utilisation and future taxable profits are not certain.

In accordance with the Croatian legislation, the Tax Authority may inspect the Group's books and records at any time within 3 years following the year in which the tax liability is declared and may impose additional taxes and penalties. The Management Board of the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

(All amounts are expressed in thousands of kunas)

14. INTANGIBLE ASSETS

	Concessions and rights *Restated*	Software	Assets under development	Total intangible assets
COST				
At 1 January 2014	**58,423**	**82,680**	**-**	**141,103**
Additions	21,026	**-**	6,139	27,165
Transfer from assets under development	-	6,139	(6,139)	-
Disposals and retirements	-	-	-	-
At 31 December 2014	**79,449**	**88,819**	**-**	**168,268**
Additions	12,002	4,553	944	17,499
Transfer from assets under development	-	944	(944)	-
Disposals and retirements	(7)	(1,030)	-	(1,037)
At 31 December 2015	**91,444**	**93,286**	**-**	**184,730**
ACCUMULATED AMORTISATION				
At 1 January 2014	**25,626**	**70,355**	**-**	**95,981**
Charge for the year	17,793	3,870	-	21,663
Disposals and retirements	-	-	-	-
At 31 December 2014	**43,419**	**74,225**	**-**	**117,644**
Charge for the year	17,831	4,213	**-**	22,044
Disposals and retirements	(93)	(86)	**-**	(179)
At 31 December 2015	**61,157**	**78,352**	**-**	**139,509**
NET BOOK VALUE				
At 1 January 2014	**32,797**	**12,325**	**-**	**45,122**
At 31 December 2014	**36,030**	**14,594**	**-**	**50,624**
At 31 December 2015	**30,287**	**14,934**	**-**	**45,221**

The Group received the telecommunication service license from the Croatian Telecommunication Agency on 19 November 2004.

(All amounts are expressed in thousands of kunas)

15. PROPERTY, PLANT AND EQUIPMENT

	Land and builidings	Plant and equipment	Vechicles	Works of art	Assets under development	Leasehold improvements	Total tangible assets
COST							
At 1 January 2014	**26,960**	**615,940**	**1,437**	**46**	**8,641**	**4,809**	**657,833**
Additions	-	3,991	915	-	21,500	5	26,411
Transfer from assets under development	76	23,659	76	-	(23,812)	1	-
Disposals	(7,306)	(8,250)	(1,525)	**-**	-	-	(17,081)
At 31 December 2014	**19,730**	**635,340**	**903**	**46**	**6,329**	**4,815**	**667,163**
Additions	-	2,948	99	-	27,857	14	30,918
Transfer from assets under development	-	19,732	-	-	(19,732)	-	-
Disposals	(8)	(1,269)	(129)	-	-	(96)	(1,502)
At 31 December 2015	**19,722**	**656,751**	**873**	**46**	**14,454**	**4,733**	**696,579**
ACCUMULATED DEPRECIATION							
At 1 January 2014	**6,265**	**293,454**	**355**	**-**	**-**	**4,041**	**304,115**
Charge for the year	1,457	50,698	352	-	-	211	52,718
Disposals	(2,015)	(5,542)	(554)	-	-	-	(8,111)
At 31 December 2014	**5,707**	**338,610**	**153**	**-**	**-**	**4,252**	**348,722**
Charge for the year	469	40,867	165	-	-	194	41,695
Disposals	(2)	(1,316)	(32)	-	-	(72)	(1,422)
At 31 December 2015	**6,174**	**378,161**	**286**	**-**	**-**	**4,374**	**388,995**
NET BOOK VALUE							
At 1 January 2014	**20,695**	**322,486**	**1,082**	**46**	**8,641**	**768**	**353,718**
At 31 December 2014	**14,023**	**296,730**	**750**	**46**	**6,329**	**562**	**318,440**
At 31 December 2015	**13,548**	**278,590**	**587**	**46**	**14,454**	**359**	**307,584**

As of 31 December 2015, the net book value of property, plant and equipment given as collateral amounted to HRK 135,837 thousand. According to the prebankruptcy agreement, the creditor retains liens on the property to ensure their claims to payments.

(All amounts are expressed in thousands of kunas)

16. NON-CURRENT AND CURRENT LOANS

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014**
Loans to individuals (Note 3.29)	-	-	14,478
Loans to companies /i/	37,576	37,422	36,989
Impairment of loans	(37,264)	(37,264)	(51,467)
Non-current loans	**312**	**158**	**-**
Loans to individuals (Note 3.29) /ii/	10,767	10,767	-
Current loans	**10,767**	**10,767**	**-**
Total given loans	**11,079**	**10,925**	

/i/ In 2007 Optima Telekom d.o.o. approved three long-term loans to OSN- Inženjering d.o.o., Rijeka, in the amount of HRK 22,000 thousand, with an interest rate of 11,50%, due in 2010. The loans were approved for the purpose of developing IP Centrex services the company intends to use. Security instruments comprise three bills of exchange issued in the loan amounts, plus interest, fee and other charges, and three blank debentures. In 2010 the Management Board of the Company signed annexes to the loan agreements, by which the due dates were extended until 13 August 2012 and 30 April 2013. In 2012 a new reprogramming arrangement was signed by the Management Board of the Company, under which the previously defined maturity date of 13 August 2012 was extended to 13 August 2014. According to the contracts for the three loans and the related annexes, the interest is accrued and added to the principal amounts on a monthly basis. On 21 January 2008 Optima OSN- Inženjering d.o.o. repaid a portion of HRK 1,780 thousand of the total loan debt. The balance outstanding at 31 December 2013 amounts to HRK 35,355 thousand. The receivables were fully provided against at 31 December 2012. In 2013 and 2014, the interest accrued was also provided against. Forced collection was initiated in 2014.

/ii/ In previous periods, the Group granted two loans to individual in the total amount of HRK 9,300 thousand. Interests on loans were added to the principal in previous periods so as at 31 December 2015, the principal with added interests amounted to HRK 14,455 thousand (31 December 2014: HRK 14,455 thousand). In previous periods, the Group partially impaired these receivables in the amount of HRK 3,692 thousand. The loans are secured with adequate security instruments (bills of exchange and promissory notes). In addition, a lien on Optima's ordinary shares owned by an individual was established. In 2015, an agreement was concluded between Optima and one of the owners of the Company regarding the future tag-along right, whereby it is defined that, when this owner decides to sell Optima's shares, Optima reserves the right to join the deal and sell its treasury shares under the same terms and conditions and at the same price. Based on discussions with the debtor and described circumstances above, management believes that the net book value of loan receivables will be fully collected either through cash settlement or through proceeds from future sale of the related collateral (treasury shares) in following year.

(All amounts are expressed in thousands of kunas)

17. TRADE AND OTHER RECEIVABLES

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Domestic trade receivables	94,137	95,407	98,780
Foreign trade receivables	5,372	5,801	9,689
Impairment allowance on trade receivables	(29,791)	(29,820)	(27,609)
Total receivables, net	**69,718**	**71,388**	**80,860**
Receivables from state and other institutions	333	167	394
Advances for services and inventories	760	1,441	786
Other receivables	329	373	536
	71,140	**73,369**	**82,576**

Movements in the impairment allowance on trade receivables:

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
At 01 January	29,820	27,609	27,772
Writte-off during the year	(234)	(347)	(1,784)
Amounts collected during the year	(2,107)	(944)	(1,452)
Additional provisions	2,312	3,502	3,073
Closing balance	**29,791**	**29,820**	**27,609**

Age analysis of the Group's receivables:

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Not yet due	43,077	46,598	48,715
Up to 120 days	21,760	20,469	24,250
120 to 360 days	4,340	4,199	7,895
Over 360 days	541	122	-
Total	**69,718**	**71,388**	**80,860**

(All amounts are expressed in thousands of kunas)

18. DEPOSITS

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Non-current guarantee deposits /i/	3,598	3,502	3,520
	3,598	**3,502**	**3,520**
Current guarantee deposits	88	1,436	1,248
	88	**1,436**	**1,248**
Total deposits	**3,686**	**4,938**	**4,768**

/i/ Non-current deposits include two foreign-currency guarantee deposits with Zagrebačka banka provided for issued bank guarantees. They expire on 30 June 2028. The deposits bear interest at a variable rate in accordance with the Bank's Decision on interest rates, which was 4.86 % at the point of making the deposits.

(All amounts are expressed in thousands of kunas)

19. PREPAID EXPENSES AND ACCRUED INCOME

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
Prepaid lease expenses (IRU arrangements)	9,500	10,500	11,500
Non-current prepaid expenses	**9,500**	**10,500**	**11,500**
Prepaid service expenses	1,586	2,078	2,107
Prepaid lease expenses (IRU arrangements)	1,000	1,000	1,000
Current prepaid expenses	**2,586**	**3,078**	**3,107**
	12,086	**13,578**	**14,607**

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, current account balances and other balances with banks.

	31 December 2015	31 December 2014	1 January 2014
Bank balances	20,341	25,837	62,672
Foreign currency account balance	67	107	5,230
Cash in hand	10	10	22
Cash and cash equivalents	**20,418**	**25,954**	**67,924**

21. ISSUED SHARE CAPITAL

The Financial and Operational Restructuring Plan of the Company, adopted by its creditors in the hearing of 5 November 2013, envisages the conversion of a part of the creditors' claims into equity shares as one of the major measures.

The share capital increase was registered at the Commercial Court on 9 June 2014 based on the underlying decision adopted by the Company's General Assembly on 15 April 2014, which was to convert a part of the claims of certain creditors in the pre-bankruptcy settlement to equity. As a result, share capital was increased from HRK 28,200,700.00 to HRK 563,788,270.00, issuing 53,558,757 new non-materialised ordinary (registered) shares, with a nominal value of HRK 10.00 each. Based on the master pre-bankruptcy settlement arrangement for (c) category creditor Zagrebačka banka d.d. – claims from loan relationships secured by lien on movable property and rights in the total amount of HRK 110,000,000.00, defined to be settled under (MCL) terms and conditions.

Zagrebačka banka d.d. transferred a portion of it's the Mandatory convertible Loan (MCL) in the amount of HRK 68,870,920.00 to Hrvatski Telekom d.d. (hereinafter: 'HT') which then, as a new creditor of a portion of the MCL claims, filed a due request to convert this claim to the Company's equity interest

As a result, on 13 August 2014, Company's share capital was further increase from HRK 563,788,270.00 to HRK 632,659,190.00 through an issue of 6,887,092 ordinary shares, ticker OPTE-R-B, with a nominal amount of HRK 10.00 per share.

HT's Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima. The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for participant in concentration with regard to management and control over Optima, among which is the implementation of so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation. The control of HT over Optima is limited to a period of four years starting as at 18 June 2014. Upon the expiration of the four-year period it is automatically terminated, without the possibility of extension. On the date of expiry of the third year, HT is required to start the process selling all its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well.

On November 3, 2014, the Company's General Meeting adopted the Decision on increasing the Company's share capital through the issuance of common shares, investment of rights – converting a part of the pre-bankruptcy creditors' claims into share capital, with the exclusion of existing shareholders' priority rights, from the amount of HRK 632,659,190.00 by an amount not exceeding HRK 2,910,110.00, to the maximum amount of HRK 636,569,300.00, through the issuance of a maximum of 291,011 new registered common shares, having the nominal value of HRK 10.00 each.

(All amounts are expressed in thousands of kunas)

21. ISSUED SHARE CAPITAL (continued)

The pre-bankruptcy creditors who submitted a written statement (subscription form) within the subscription deadline and concluded the agreement on investing rights (claims) into the Company's share capital, have invested claims adding up to HRK 2,908,890.00. The share capital increase from the amount of HRK 632,569,150.00 by the amount of HRK 2,908,890.00 to the amount of HRK 635,568,080.00 has been registered by virtue of the Commercial Court of Zagreb decision, docket no. Tt-15/1314-2, dated February 26, 2015.

After HANFA had rendered its decision Class: UP/I-451-04/14-11/03, Cons. No. 326-01-770-772-15-11 on March 27, 2015 approving the registration document, the note on the security and the summary of the prospectus which, taken together, form a prospectus composed of separate documents for the admission of a total of 60,736,738 common registered dematerialized shares, having the nominal value of HRK 10.00 each and the total nominal value of HRK 607,367,380.00 to the regulated market; the CDCC has published a notification on conversion of common shares ticker OPTE-R-B into OPTE-R-A on April 7, 2015. Upon execution of Securities conversion, 63.556.808 securities ticker OPTE-R-A, ISIN: HROPTERA0001, each nominal value of 10.00 HRK will be included in the Depository and Clearing and Settlement of CDCC. Pursuant to its Decision Class: UP/I-451-01/15-01/71, Cons. No. 536-15-2 of April 1, 2015, Zagrebačka Burza d.d. allowed the admission of 60,736,738 common shares, each having the nominal amount of HRK 10.00, ticker: OPTE-R-A, ISIN: HROPTERA0001, into the official market of the Zagreb Stock Exchange. Thereby, the Company has completed the admission of common shares issued in the pre-bankruptcy settlement proceedings.

On 31 December 2015 the balance of MCL amounts to HRK 32,904 thousand. The Company has the right, but not the obligation to pay the principal annually.

Earnings per share:

	2015	**2014** *Restated*
Profit for the year attributable to ordinary equity holders of the Company in HRK thousand	12,676	51,235
Weitghted average number of ordinary shares for basic earnings per share	63,556,808	63,265,919
Profit per share	**0.20**	**0.81**

(All amounts are expressed in thousands of kunas)

21. ISSUED SHARE CAPITAL (continued)

Shareholders at 31 December were as follows:

Shareholder	**2015**	
	(in HRK'000)	**%**
ZAGREBAČKA BANKA D.D.	256,259	40.32
HT D.D.	120,902	19.02
HANŽEKOVIĆ MARIJAN	23,923	3.76
RAIFFEISENBANK AUSTRIA D.D.	21,246	3.34
MARTIĆ MATIJA	15,000	2.36
INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O.	14,500	2.28
MERKUR OSIGURANJE D.D.	11,921	1.88
VIPNET D.O.O.	10,854	1.71
RAIFFEISENBANK AUSTRIA D.D.	9,407	1.48
HRVATSKA POŠTANSKA BANKA D.D.	8,109	1.28
HRVATSKA POŠTANSKA BANKA D.D.	7,544	1.19
OTP BANKA D.D.	7,491	1.18
ALLIANZ ZAGREB D.D.	5,677	0.89
HYPO ALPE-ADRIA-BANK D.D.	5,677	0.89
ZAGREBAČKA BANKA D.D.	5,677	0.89
UNIQA D.D.	5,474	0.86
RAIFFEISENBANK AUSTRIA D.D.	5,333	0.84
ODAŠILJAČI I VEZE D.O.O.	4,841	0.76
ZAGREBAČKA BANKA D.D.	4,837	0.76
RAIFFEISENBANK AUSTRIA D.D.	4,401	0.69
	549,073	**86,39**
Other shareholders	**86,495**	**13,61**
	635,568	**100,00**

(All amounts are expressed in thousands of kunas)

22. LONG-TERM AND SHORT TERM BORROWINGS

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
Amounts due to banks	206,701	205,023	-
Financial lease obligations	2,602	2,988	3,371
Long-term portion	**209,303**	**208,011**	**3,371**
Amounts due to banks	-	1,186	611,019
Financial lease obligations	434	893	1,401
Short term liabilities under long-term tax reprogramming arrangement	-	461	963
Short term portion	**434**	**2,540**	**613,383**
Total received loans and borrowings	**209,737**	**210,551**	**616,754**

The largest portion in the undiscounted amount of HRK 229,254 thousand as of 31 December 2015 relates to loans provided by Zagrebačka banka resulting from the restructuring of debt under the pre-bankruptcy settlement. The interest rate on those loans is 4.5 % annually, and the ultimate repayment deadline is 30 June 2028.

The breakdown of the loan debt by individual currencies is provided below.

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
EUR	206,300	206,643	550,213
HRK	3,437	3,908	65,638
USD	-	-	903
Long-term loans and borrowings	**209,737**	**210,551**	**616,754**

The weighted average interest rate on received short-term and long-term loans and borrowings is 4.54 % (2014: 4,46%).

Set out below are the debt balances analysed by type of interest, with the variable rate representing 3M EURIBOR..

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
Variable rate	2,907	3,339	327,349
Fixed rate	206,830	207,212	289,405
Received loans and borrowings	**209,737**	**210,551**	**616,754**

(All amounts are expressed in thousands of kunas)

23. ISSUED BONDS

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
Nominal amount – long term	75,000	75,000	-
Discount	(3,915)	(4,796)	-
	71,085	**70,204**	**-**
Nominal amount – short term	-	-	250,000
Accrued interest – short term	-	351	43,688
	71,085	**70,555**	**293,688**

On 5 February 2007 the Company issued bonds (OPTE-O-124 A) with a nominal amount of HRK 250 million. The bonds were issued on Zagreb Stock Exchange. The interest rate on the bonds is 9.125 %, and the bonds matured on 1 February 2014. The bonds were issued at a price of 99.496 %. The interest due on 1 February 2013 was not paid because of the initiation of the pre-bankruptcy settlements procedure. However, it was included in the estates to be settled under the pre-bankruptcy settlement. The effective interest rate is 9.226 %.

According to the Pre-bankruptcy Settlement Arrangement, SKDD registered in its system the change in the bond type designation of the issuer from OPTE-O-142A, ISIN:HROPTEO142A5, into a debt security with multiple maturities and the share of notional principal amount outstanding of HRK 0.30 per bond. In the period from 30 May 2014 to 30 May 2017, the Company, as the bond issuer, will pay the interest semi-annually at an interest rate of 5.25 % a year, and since 30 May 2017, the bond holders will receive, in addition to the interest, a part of the bond principal in the amount of 3 %.

In 2015, the Company complied with its obligations and issued the Prospectus composed of separate documents for the readmission of the bonds and Zagrebačka burza d.d. approved their admission into the official market of the Zagreb Stock Exchange.
Namely, on 31 July 2015 HANFA rendered the decision Class: UP/I-976-02/15-01/08, Cons. no. 326-01-770-772-15-5 approving the Security Note and prospectus summary which, along with the Registration Document approved by the Agency's decision of 27 March 2015, Class: UP/I-451-04/14-11/03, Cons. no. 326-01-770-772-15-11, comprise the prospectus composed of separate documents for the admission of dematerialized registered bonds, ticker OPTE-O-142A, having the nominal value of HRK 1.00 each and the total nominal value of HRK 250,000,000.00, with an annual interest of 5.25%, falling due in 2022. On 3 August 2015 the Company filed an application to the Zagreb Stock Exchange, and on the same day the Stock Exchange rendered the decision Class: UP/I-451-01/15-01/139, Cons. No. 536-15-2, approving the admission of HRK 250,000,000.00 worth of bonds, ticker OPTE-O-142A, ISIN: HROPTEO142A5 into the official market of the Zagreb Stock Exchange, and 6 August 2015 has been determined as the first day of security trading.

(All amounts are expressed in thousands of kunas)

24. TRADE PAYABLES

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
Long-term liabilities to content providers	10,155	13,758	9,199
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement	-	29,416	-
Non-current	**10,155**	**43,174**	**9,199**
Domestic trade payables	43,082	46,820	233,182
Foreign trade payables	5,049	2,253	6,453
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement	29,412	27,624	-
Content	13,971	17,470	17,613
Current	**91,514**	**94,167**	**257,248**
Total trade payables	**101,669**	**137,341**	**266,446**

25. OTHER CURRENT LIABILITIES

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
VAT payable	1,147	3,121	10,510
Net salaries	3,181	2,859	2,785
Taxes and contributions on salaries	1,685	1,701	1,970
Other amounts due to the state	-	158	789
Other liabilities	3	20	65
	6,016	**7,859**	**16,119**

26. ACCRUED EXPENSES AND DEFERRED INCOME

	31 December 2015	31 December 2014 *Restated*	1 January 2014 *Restated*
Deferred equipment rental income	21,835	20,662	22,815
Total long-term	**21,835**	**20,662**	**22,815**
Deferred equipment rental income	2,404	1,796	-
Accrued expenses - domestic supplier accruals	9,945	6,737	6,634
Accrued expenses - foreign supplier accruals	5,057	3,465	4,069
Total short-term	**17,406**	**11,998**	**10,703**
	39,241	**32,660**	**33,518**

(All amounts are expressed in thousands of kunas)

27. RELATED-PARTY TRANSACTIONS

Pursuant to Article 21 of the Statute, each Supervisory Board member is entitled to a fee. The fee entitlement and amount are determined in the General Meeting of the Company's Shareholders by a simple majority of vote.

The total remuneration paid to the Supervisory Board members in 2015 amounts to HRK 200 thousand. No loans were provided to the Supervisory Board members. The total remuneration paid to the Management Board members in 2015 amounts to HRK 3,697 thousand

According to Article 15 of the Company's Statute, any legal transactions with the shareholders of Hrvatski Telekom d.d. and Zagrebačka banka d.d. and parties related to them require prior consent of the Supervisory Board.

The main transactions with related parties during 2015 and 2014 were as follows:

	2015	**2014**
Income */i/*		
Hrvatski telekom d.d.	9,309	5,918
Iskon internet d,d,	1,488	505
Combis d.o.o.	36	
Zagrebačka banka d.d.	156	136
Expenses */i/*		
Hrvatski telekom d.d.	130,454	72,357
Iskon internet d,d,	561	256
Combis d.o.o.	254	98
Zagrebačka banka d.d.	10,815	5,492
Receivables		
Hrvatski telekom d.d.	1,341	2,586
Iskon internet d,d,	155	129
Combis d.o.o.	8	-
Zagrebačka banka d.d./ii/	20,617	28,395
Liabilities		
Hrvatski telekom d.d.	33,915	36,935
Iskon internet d,d,	-	61
Combis d.o.o.	1,202	36
Zagrebačka banka d.d. /iii/	278,448	303,747

/i/ Income and expense amounts in 2014 represents transactions for second part of the year
/ii/ Cash on bank account
/iii/ Liabilities includes MCL which is classified as equity

(All amounts are expressed in thousands of kunas)

28. COMMITMENTS

a) Operating lease commitments

The Group has operating lease commitments in respect of buildings, land, equipment and cars.

Operating lease charges:

	31 December 2015	31 December 2014
Current year expense	31,508	38,176
	31,508	**38,176**

Future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2015	31 December 2014
Within one year	16,610	7,459
Between 1 and 5 years	37,104	20,473
Greater than 5 years	7,849	2,158
	61,563	**30,090**

The contracts relate primarily to property leases and car leases.

b) Capital commitments

The Group was committed under contractual agreements to capital expenditure as follows:

	31 December 2015	31 December 2014
Intangible assets	-	-
Property, plant and equipment	8,844	1,242
	8,844	**1,242**

(All amounts are expressed in thousands of kunas)

29. FINANCIAL INSTRUMENTS

During the period, the Group used most of its financial instruments to finance its operations. The financial instruments comprise loans and borrowings, bills of exchange, cash and liquid resources and various other items, such as trade receivables and payables, which arise directly from the Company's operations.

29.1. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the recognition criteria, the measurement basis and the basis for recognition of income and expenses in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

Categories of financial instruments

	2015	**2014**
Financial assets		
Non-current and current loans	14,677	14,427
Cash and cash equivalents	20,418	25,954
Trade receivables	69,718	71,388
	104,813	**111,769**
Financial liabilities at amortised cost		
Issued bonds	71,085	70,555
Borrowings	209,737	210,551
Trade payables	101,669	137,341
	382,491	**418,447**

(All amounts are expressed in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.2. Foreign currency risk management

The carrying amounts of the Group's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below.

	2015	2014	2015	2014
	Liabilities		Assets	
EUR	249,125	235,696	13,485	14,941
USD	388	266	-	-
	249,513	**235,962**	**13,485**	**14,941**

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna to the euro US dollar..

The following table details the Group's sensitivity to a 10-percent change of the Croatian kuna in 2015 against the relevant currencies (2014: 10 %). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the changes in the foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where the Croatian kuna changes against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	2015	2014	2015	2014
	Liabilities		Assets	
EUR	24,913	23,570	1,349	1,494
USD	39	27	-	-
	24,952	**23,597**	**1,349**	**1,494**

The exposure to the 10-percent fluctuation in the exchange rates is mainly attributable to the borrowings, trade payables and receivables from related companies denominated in Euro (EUR) and US dollar (USD).

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.3. Interest rate risk

Interest rate cash flow risk is the risk that the interest cost of financial instruments will fluctuate over the time.

The Group has no exposure to interest rate risk because the majority of its financial obligations bear interest at fixed rates.

The issued bonds are measured at amortized cost, and changes in the interest rates that could cause the fair value of the bonds to change do not affect the carrying amount of issued bonds.

29.4. Other price risks

The Group is not exposed to equity price risks arising from equity investments. There are no significant equity instruments held by the Group.

29.5. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a potential financial loss to the Group. The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group has adopted procedures which it applies in dealing with customers. The Group obtains sufficient collaterals, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group does not guarantee obligations of other parties.

The Group considers that their maximum exposure is reflected by the amount of debtors net of provisions for impairment recongihzed at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. At 31 December 2015, the Group and the Company had business transactions with 14 banks (2014: 14 banks). The Group held cash in five banks almost exclusively. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership at the domestic and foreign markets and on contacts with the banks on a daily basis.

(All amounts are expressed in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.5 Credit risk (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	2015	2014
Residential	26,946	29,258
Wholesale	8,090	9,332
Key Accounts (KA)	2,892	2,685
Small and medium Enterprises (SME)	2,675	2,606
Small office / Home office (SOHO)	2,375	2,615
Other	99	102
	43,077	**46,598**

(All amounts are expressed in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.6. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and payables.

Liquidity and interest rate risk tables

The following tables detail the Group's remaining contractual maturities for its liabilities at the end of the period. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Average interest rate	Less than 3 months	3 - 12 months	1 to 5 years	Over 5 years	Total
2015						
Non-interest bearing		72,975	48,443	23,202	12,225	156,845
Interest bearing	4,54%	3,944	11,837	178,729	204,354	398,864
		76,919	**60,280**	**201,931**	**216,579**	**555,709**
2014						
Non-interest bearing		69,521	47,637	57,013	13,480	187,651
Interest bearing	4,46%	3,177	13,352	149,869	249,868	416,266
		72,698	**60,989**	**206,882**	**263,348**	**603,917**

Non-interest bearing liabilities of the Company due in a period of up to one year consist mainly of trade payables (including content providers) in the amount of HRK 80,898 thousand in 2015 (2014: HRK 102,281 thousand).

Interest-bearing liabilities include liabilities under short-term and long-term borrowings, finance leases and bonds.

30. FINANCIAL INSTRUMENTS (CONTINUED)

29.7. Fair value of financial instruments

Methods and assumptions used in measuring fair values

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and quotes for similar instruments.

Borrowings are classified as Level 2 and their carrying value approximates fair value discounted using market rate instead of effective interst rate.

The estimated fair value of the bonds in the amount of HRK 100,000 thousand at 31 December 2015 is determined by their market value on secondary capital market (Zagreb stock exchange) as of date of the statement of financial position and belong to the first hierarchical category of financial instruments. Fair value is determined as the last closing price in 2015, although during the year there were no significant transactions with these bonds.

31. AUDITOR'S FEES

The auditors of the Company's financial statements have rendered services of HRK 956 thousand in 2015 (2014: HRK 589 thousand). Services rendered in 2015 and 2014 mainly relate to audits of the financial statements and trustee for pre-banckruptcy purposes.

32. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2015 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require disclosure in the financial statements.