OT-Optima Telekom d.d.

Statutory financial statements

At 31 December 2015

Together with Independent Auditor's Report

Contents

Responsibility for the statutory 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. (jointly referred to as: 'the Company').

After making appropriate enquiries, the Management has a reasonable expectation that the Company 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 Company 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 Company will continue as a going concern.

The Management Board of the Company is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Company set out on pages 1 to 64 were approved by Management Board on 16 February 2016 and are signed below to signify 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

Independent auditor's report

To the Shareholders and Management Board of OT-Optima telekom d.d.

We have audited the accompanying financial statements of OT-Optima telekom d.d. (the 'Company') which comprise the statement of financial position as at 31 December 2015 and the 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 financial statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company 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.
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.

Statutory statement of comprehensive income

At 31 December 2015

(All amounts are expressed in thousands of kunas)

	Notes	2015	2014 *Restated*
Sales	4	435,515	457,866
Other operating income	5	2,067	7,159
		437,582	**465,025**
Merchandise, material and energy expenses		(6,347)	(7,179)
Interconnection fee expenses		(144,401)	(152,696)
Rent of telecommunication equipment		(27,092)	(33,698)
Customer attraction expenses		(5,983)	(14,601)
Other service expenses	6	(62,594)	(68,977)
Employee costs	7	(55,404)	(55,937)
Own work capitalized		3,295	-
Depreciation and amortisation	8	(62,981)	(72,464)
Provision of trade receivables - net	9	(2,653)	(6,908)
Net loss on disposal of assets and equipment		-	(3,135)
Other operating expenses	10	(35,492)	(62,072)
		(399,652)	**(477,667)**
OPERATING PROFIT		**37,930**	**(12,642)**
Finance income	11	2,034	64,420
Finance costs	12	(27,741)	(25,221)
Finance costs - net		**(25,707)**	**39,199**
PROFIT/(LOSS) BEFORE TAXATION		**12,223**	**26,556**
Income tax expense	13	-	-
PROFIT/(LOSS) FOR THE YEAR		**12,223**	**26,556**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		**12,223**	**26,556**
Earnings/(loss) per share (in HRK)	21	0.19	0.42

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

Statutory 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	299,261	308,404	342,121
Investments in subsidiaries	17	87	87	15,026
Given loans	16	427	1,545	4,754
Deposits	19	3,598	3,648	3,483
Available-for-sale financial assets		35	35	35
Other non-current assets	20	9,500	10,500	11,500
Total non-current assets		**358,129**	**374,843**	**422,041**
Current assets				
Inventories		109	1,455	1,344
Trade and other receivables	18	71,035	76,966	87,987
Given loans	16	16,231	10,763	-
Deposits	19	92	1,283	1,248
Prepaid expenses and accrued income	20	2,583	2,985	2,940
Cash and cash equivalents	21	20,369	25,920	67,873
Total current assets		**110,419**	**119,372**	**161,392**
TOTAL ASSETS		**468,548**	**494,215**	**583,433**

The accompanying notes form an integral part of these statutory 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	22	635,568	632,659	28,201
Capital gains	22	194,354	194,354	194,354
Other equity (MCL)	22	32,904	41,129	-
Accumulated losses		(822,589)	(832,593)	(859,149)
Total equity		**40,237**	**35,549**	**(636,594)**
Long-term borrowings	23	209,303	208,011	3,262
Issued bonds	24	71,085	70,204	-
Trade payables		10,155	43,173	9,199
Provisions		62	-	-
Deferred income	27	21,835	20,240	22,807
Total non-current liabilities		**312,440**	**341,628**	**35,268**
Short-term borrowings	23	434	1,896	609,470
Issued bonds	24	-	351	293,688
Trade payables	25	91,511	93,975	255,209
Provisions		509	1,829	1,784
Accrued expenses and deferred income	27	17,406	11,998	10,703
Other current liabilities	26	6,011	6,989	13,905
Total current liabilities		**115,871**	**117,038**	**1,184,759**
TOTAL EQUITY AND LIABILITIES		**468,548**	**494,215**	**583,433**

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

Statutory 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 equity	Accumulated losses	Total
Balance at 1 January 2014	**28,201**	**194,354**	**-**	**(859,149)**	**(636,594)**
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)	-	-
Profit for the year (*Restated)*	-	-	-	26,556	**26,556**
Total comprehensive income for the year	-	-	-	*26,556*	*26,556*
Balance at 31 December 2014 (Restated)	**632,659**	**194,354**	**41,129**	**(832,593)**	**35,549**
Increase of share capital based on pre-bankruptcy settlement agreement	2,909	-	-	-	2,909
Value on conversion rights of MCL	-	-	(8,225)	-	(8,225)
Interest on MCL				(2,219)	(2,219)
Profit for the year	-	-	-	**12,223**	**12,223**
Total comprehensive income for the year	-	-	-	*12,223*	*12,223*
Balance at 31 December 2015	**635,568**	**194,354**	**32,904**	**(822,589)**	**40,237**

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

Statutory 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/(loss) for the year		12,223	26,556
Adjusted by:			
Depreciation and amortisation		62,982	72,464
Interest income		-	(41,425)
Interest expense		27,242	20,107
Net (gain) loss on sale of non-current assets		-	2,760
Reversal of impairment of loan receivables		-	(10,767)
Value adjustment of financial assets		-	16,035
Net impairment of trade receivables		205	1,621
Income from liability write-off		-	(19,452)
Net exchange differences		(643)	(508)
Decrease/(increase) in inventories		1,346	(111)
Decrease in trade and other receivables		7,924	11,788
Increase/(decrease) in trade payables and other liabilities		(35,317)	(36,283)
Decrease in provisions		(1,320)	-
Other non-cash items		(6)	(1)
Cash generated from operating activities		74,635	42,784
Interest paid		(12,701)	(11,599)
Net cash flows from operating activities		**61,934**	**31,185**
Cash flows from investing activities			
Payments for property, plant and equipment		(36,427)	(31,810)
Proceeds from sale of property, plant and equipment		-	5,828
Repayment of loans		1,269	2,226
Given loans		(101)	(278)
Net cash used in investing activities		**(35,259)**	**(24,034)**
Cash flows from financing activities			
Repayment of finance lease liability and borrowings		(1,269)	(33,687)
Repayment of content contracts		(20,514)	(15,416)
Repayments of MCL interest		(2,219)	-
Repayments of conversion rights on MCL		(8,225)	-
Net cash used in financing activities		**(32,227)**	**(49,103)**
Net (decrease) / increase in cash and cash equivalents		**(5,552)**	**(41,952)**
Cash and cash equivalents at 1 January		25,920	67,873
Cash and cash equivalents at 31 December	21	20,369	25,920

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

1. GENERAL INFORMATION

1.1. Corporate information

OT-Optima Telekom d.o.o. ('the Company'), is a joint stock company whose top shareholder are listed in Note 22. 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 75/a, Buzin, Zagreb, Croatia.

The statutory financial statements for the financial year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Management Board. These statutory financial statements are subject to endorsment of the Supervisory Board as required by the Croatian Company Act.

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.

(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 Company (2014: 210 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 22).

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 statutory financial statements have been prepared under the assumption that the Company will continue its operating activities according to the going concern principle. As at 31 December 2015, the cumulative losses of the Company amount to HRK 817,575 thousand (2014: HRK 830,251 thousand), and current liabilities exceed current assets by HRK 5,543 thousand (2014: HRK 2,334 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 37,930 thousand. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company’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 Company:

The Company 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 Company'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 Company.

None of these standards and interpretations are expected to have significant effect on the Company'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 Company assessed the impact of the new standard IFRS 9 on its financial statements as follows:

  - The Company does not expect any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.
  - There will also be no impact on the Company'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 Company does not have any such liabilities.
  - The new hedging rules will not impact the Company 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 Company 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 Company 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 Company plans to adopt the standard on its effective date and when endorsed by the European Union. Like many other telecommunications companies, the Company currently expects this standard to have a significant impact on the Company'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 Company's operations and information systems are complex, and the Company 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 Company'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)*

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

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

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 Company does not expect to change the method of accounting for investments in subsidiaries in their separate financial statements. The Company plans to adopt this amendment on its effective date and when endorsed by the European Union.

- *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 Company is currently assessing the impact of this new standard on its financial statements. The Company 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 Company have been prepared on the hystorical cost convention, in accordance with International Financial Reporting Standards as endorsed by European Union (EU).

The Company 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 Company 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 statutory financial statements have been prepared under the assumption that the Company 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Correction of errors in prior period financial information

a) *Discount of content contract liabilities*

In previous periods, the Company 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 Company 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)

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

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

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

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)

3.2. 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 reclassifications (See Note 3.4.)
Depreciation and amortization	74,832	(2,368)	-	-	-	-	72,464
Finance costs	39,986	2,368	-	(2,193)	-	(14,939)	25,222
Finance income	(25,168)	-	-	(41,425)	-	-	(66,593)
Other operating income	(21,446)	-	-	11,864	-	-	(9,582)
Other operating expenses	123,826	-	-	-	-	14,939	138,765
Profit for the year	5,198	-	-	(31,754)	-	-	(26,556)

Loss per share for 2014 as reported were HRK 0,08, while earnings per share for 2014 as restated is HRK 0,42.

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. 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	91,744	-	-	-	-	(3,757)	87,987
Prepaid expenses and accrued income	14,440	-	-	-	-	(11,500)	2,940
Non-current trade payables	(33,122)	23,923	-	-	-	-	(9,199)
Trade payables	(237,596)	(17,613)	-	-	-	-	(255,209)
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)

3.2. 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	16,043	-	-	-	-	(10,763)	5,280
Trade and other receivables	80,656	-	-	-		(3,690)	76,966
Current financial assets	1,283	-	-	-	-	10,763	12,046
Prepaid expenses and accrued income	13,485	-	-	-	-	(10,500)	2,985
Equity – other reserves	-	-	(41,129)	-	-	-	(41,129)
Equity – accumulated losses	864,347	-	-	(31,754)	-	-	832,593
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	(41,368)	27,610	-	-	(29,415)	-	(43,173)
Accrued expenses and deferred income – non-current	(22,035)	-	-	-	-	1,795	(20,240)
Short-term borrowings	(5,018)	-	-	-	-	3,122	(1,896)
Trade payables	(48,880)	(17,470)	-	-	(27,625)	-	(93,975)
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)

3.2. 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	(5,198)	-	-	31,754	-	-	26,556
Depreciation and amortization	74,831	(2,368)	-	-	-	-	72,463
Interest expense	-	2,368	-	4,747	-	12,992	20,107
Intrerest income	-	-	-	(41,425)		-	(41,425)
Repayment of borrwings	(58,872)	-	-	4,924	30,348	(10,087)	(33,687)
Increase/(Decrease) in trade payables and other liabilities	(2,820)	(6,199)	-	-	(35,958)	8,694	(36,283)
Repayment of content contracts	-	-	-	-	(15,416)	-	(15,416)
Payments for property, plant and equipment	(59,035)	6,199	-	-	21,026	-	(31,810)
Interest paid	-	-	-	-	-	(11,599)	(11,599)

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Reclassifications

In 2015, the Company has changed the presentation of certain items within the statement of financial position, statement of comprehensive income and statement of cash flows. The Company 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 Restated (see Note 3.3)	Impact of change (reclassification)	2014 Restated
Sales income	455,693	2,173	457,866
Other operating income	9,582	(2,423)	7,159
Financial income	66,593	(2,173)	64,420
Merchandise, material and energy expenses	-	(7,179)	(7,179)
Rent of telecommunication equipment	(39,338)	5,640	(33,698)
Other service expenses	-	(68,977)	(68,977)
Provision of trade receivables - net	(3,154)	(3,754)	(6,908)
Other operating expenses	(138,765)	76,693	(62,072)

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 68,977 thousand while rent of premises and operating leases in amount of HRK 5,640 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)

3.4. 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 an decsrease 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)

3.5. 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 Company, 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 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)

3.6. 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.

3.7. 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

At each date of the statement of financial position, the Company 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 Company 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 Company 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 Company'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. Where incentives are received to enter into operating leases, they 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 Company 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 Company's functional currency is the Croatian Kuna (HRK). The financial statements of the Company are presented in the currency of the primary economic environment in which the Company 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 Company 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 Company'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 Company 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 Company 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 Company 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 Company 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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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.

Derecognition of financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company 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 Company's telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the Company'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 Company 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 Company 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 Company for purpose of segment reporting is determined to be Residential, Business and Support Function as the Company's risks and rates of return are affected predominantly by differences in the market and customers.

3.24. Events after the balance sheet date

Events after the reporting period that provide additional information about the Company's position at the statement of financial position date (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 Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company 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 Company’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 Company. Further, due to the significant weight of depreciable assets in Company’s total assets, the impact of significant changes in these assumptions could be material to financial position and results of operations of the Company.

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 Company’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 INFORMATION

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

The Residential Segment includes marketing, sales and customer services, focused on providing 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 Company's geographical disclosures are based on the geographical location of its customers.

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

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Residential and Business segments

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

Year ended 31 December 2014	Residential	Business	Support functions	Total
Service revenue	281,626	176,240	-	457,866
Usage related direct costs	(174,828)	(97,233)	-	(272,061)
Contribution margin	106,798	79,007	-	185,805
Non-usage related direct costs	(48,560)	(7,160)	(59,228)	(114,948)
Other income	-	-	7,159	7,159
Other operating expenses	-	-	(18,195)	(18,195)
Depreciation, amortization and impairment of non-current assets	-	-	(72,463)	(72,463)
Operating profit	**58,238**	**71,847**	**(142,727)**	**(12,642)**

Year ended 31 December 2015	Residential	Business	Support functions	Total
Service revenue	256,277	179,238	-	435,515
Usage related direct costs	(149,669)	(97,162)	-	(246,831)
Contribution margin	106,608	82,076	-	188,684
Non-usage related direct costs	(32,235)	(10,534)	(46,374)	(89,143)
Other income	-	-	2,067	2,067
Other operating expenses	-	-	(697)	(697)
Depreciation, amortization and impairment of non-current assets	-	-	(62,981)	(62,981)
Operating profit	**74,373**	**71,542**	**(107,985)**	**37,930**

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Revenue by geographical area

	2015	2014 *Restated*
Republic of Croatia	365,363	406,521
Rest of world	70,152	51,345
	435,515	**457,866**

5. OTHER OPERATING INCOME

	2015	2014 *Restated*
Income from penalties charged	1,578	2,595
Other income	489	4,564
	2,067	**7,159**

6. OTHER SERVICE EXPENSES

	2015	2014 *Restated*
Telecommunication service costs	51,334	56,500
Invoicing expenses	3,893	4,648
Cleaning services	476	304
Intellectual services	962	2,158
Postal services	937	1,274
Bank services	585	595
Other service expenses	4,407	3,498
	62,594	**68,977**

(All amounts are expressed in thousands of kunas)

7. EMPLOYEE COSTS

	2015	2014
Net salaries	29,016	21,575
Taxes and contributions	20,863	18,223
Redundancy expenses	3,602	14,507
Long-term employee benefits	(1,258)	45
Reimbursement of costs to employees	3,181	1,587
	55,404	**55,937**
Number of staff at 31 December	347	210

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 Company 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 AND AMORTISATION

	2015	2014
Depreciation	40,937	50,800
Amortisation	22,044	21,664
Impairment allowance on tangible assets	-	-
	62,981	**72,464**

9. IMPAIRMENT CHARGE OF NON-CURRENT AND CURRENT RECEIVABLES

	2015	2014
Impairment charge on current and non-current receivables	2,313	3,154
Write-off of current and non-current receivables	3,627	6,177
Collection of current and non-current receivables	(3,287)	(2,423)
	2,653	**6,908**

(All amounts are expressed in thousands of kunas)

10. OTHER OPERATING EXPENSES

	2015	2014 *Restated*
Maintenance costs	13,898	18,349
Rent	6,181	5,640
Marketing services	6,162	5,904
External labour costs	5,610	15
Insurance premiums	1,151	1,244
Taxes and contributions independent of the results	916	971
Entertainment	258	538
Sponsorships	166	613
Residential sales services	-	12,345
Value adjustment of investment in subsidiary	-	14,939
Other operating expenses	1,150	1,514
	35,492	**62,072**

11. FINANCIAL INCOME

	2015	2014 *Restated*
Interest income	-	41,425
Written-off financial liabilities /i/	674	19,452
Foreign exchange gains	658	508
Other financial income	702	3,035
	2,034	**64,420**

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

12. FINANCIAL EXPENSES

	2015	2014
Interest expenses	27,242	20,107
Exchange losses	31	-
Value adjustment of financial assets	254	5,115
Other financial expenses	214	-
	27,741	**25,222**

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

(All amounts are expressed in thousands of kunas)

13. INCOME TAX

The Company 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 is 20 %.
Optima Telekom d.d. had no corporate income tax liability for 2014 because of the losses carried forward.

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

	2015	**2014** *Restated*
Profit before taxation	**12,223**	**26,556**
Income tax at 20%	2,445	5,311
Effect of expenses not deductible for tax purposes	302	3,796
Effect of non-taxable income	-	(332)
Effect of utilised loss from previous periods for wihich DTA was not recongised *(Restated)*	(2,747)	(8,775)
Income tax charge	**-**	**-**
Effective tax rate	0%	0%

Tax losses brought forward and recognised as tax-deductible items as well as 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 (2014: HRK 42,385 thousand) thousand has not been recognised in these statutory 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 Company'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 Company 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	**58,422**	**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**	**70,354**	**-**	**95,980**
Charge for the year	17,793	3,871	-	21,664
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				
1 January 2014	**32,796**	**12,326**	**-**	**45,122**
At 31 December 2014	**36,030**	**14,594**	**-**	**50,624**
At 31 December 2015	**30,287**	**14,934**	**-**	**45,221**

The Company 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	**18,122**	**608,487**	**1,336**	**47**	**8,641**	**4,645**	**641,278**
Additions	-	3,458	708	-	21,500	5	25,671
Transfer from assets under development	76	23,658	76	-	(23,812)	2	-
Disposals	(6,647)	(8,192)	(1,524)	-	-	-	(16,363)
At 31 December 2014	**11,551**	**627,411**	**596**	**47**	**6,329**	**4,652**	**650,586**
Additions	-	3,654	284	-	27,857	79	31,874
Transfer from assets under development	-	19,645	87	-	(19,732)	-	-
Disposals	-	(348)	(37)	-	-	-	(385)
At 31 December 2015	**11,551**	**650,362**	**930**	**47**	**14,454**	**4,731**	**682,075**
ACCUMULATED DEPRECIATION							
At 1 January 2014	**3,518**	**291,280**	**355**	**-**	**-**	**4,004**	**299,157**
Charge for the year	371	49,942	308	-	-	179	50,800
Disposals	(1,743)	(5,479)	(553)	-	-	-	(7,775)
At 31 December 2014	**2,146**	**335,743**	**110**	**-**	**-**	**4,183**	**342,182**
Charge for the year	288	40,327	131	-	-	191	40,937
Disposals	-	(272)	(33)	-	-	-	(305)
At 31 December 2015	**2,434**	**375,798**	**208**	**-**	**-**	**4,374**	**382,814**
NET BOOK VALUE							
At 1 January 2014	**14,604**	**317,207**	**981**	**47**	**8,641**	**641**	**342,121**
At 31 December 2014	**9,405**	**291,668**	**486**	**47**	**6,329**	**469**	**308,404**
At 31 December 2015	**9,117**	**274,564**	**722**	**47**	**14,454**	**359**	**299,261**

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** *(Rrestated)*	**1 January 2014** *Restated*
Loans to individuals (Note 3.29)	-	-	5,717
Loans granted to subsidiaries	2,338	3,614	4,753
Loans to companies /i/	37,576	37,425	36,989
Impairment of loans	(39,487)	(39,494)	(42,705)
	427	**1,545**	**4,754**
Loans to individuals (note 3.29) /ii/	10,763	10,763	-
Loans granted to subsidiaries /iii/	5,468	-	-
	16,231	**10,763**	**-**

/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. 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 Company 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 Company 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) during the next year.

/iii/ In January 2015, based on the Framework loan agreement, Optima telekom d.d. has granted to the subsidiary Optima direct a loan in amount of HRK 8,000 thousand for one year. The loan is interest free.

(All amounts are expressed in thousands of kunas)

17. INVESTMENTS IN SUBSIDIARIES

The net book value of investments in subsidiaries comprises:

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Optima Direct d.o.o. Croatia /i/	-	-	14,939
Optima Telekom d.o.o. Slovenia /ii/	67	67	67
Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o. /iii/	20	20	20
	87	**87**	**15,026**

/i/ 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 debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest. During 2014 the Company tested its investment in Optima Direct d.o.o. for impairment and impaired the entire investment in the amount of HRK 14,939 thousand.

/ii/ The Company set up, as sole owner, Optima Telekom d.o.o., Koper, Slovenia in 2007. Optima Telekom doo, Koper, Slovenia performs the renting of equipment for the needs of the OT Group.

/iii/ 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.

(All amounts are expressed in thousands of kunas)

18. TRADE AND OTHER RECEIVABLES

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Domestic trade receivables	93,121	94,736	98,358
Foreign trade receivables	5,793	5,967	9,689
Impairment allowance on trade receivables	(28,793)	(28,821)	(26,611)
Total trade receivables, net	**70,121**	**71,882**	**81,436**
Receivables from state and other institutions	181	98	127
Advances for services and inventories	733	4,709	5,962
Other receivables	-	277	462
	71,035	**76,966**	**87,987**

Movements in the impairment allowance on trade receivables:

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
At 01 January	28,821	26,611	26,593
Writte-off during the year	(235)	-	(1,603)
Amounts collected during the year	(2,106)	(944)	(1,452)
Additional provisions	2,313	3,154	3,073
Closing balance	**28,793**	**28,821**	**26,611**

Age analysis of the Company's receivables:

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Not yet due	43,077	46,598	48,670
Up to 120 days	21,651	20,469	24,561
120 to 360 days	4,830	4,693	8,205
Over 360 days	563	122	-
Total	**70,121**	**71,882**	**81,436**

(All amounts are expressed in thousands of kunas)

19. DEPOSITS

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Non-curret guarantee deposits /i/	3,598	3,648	3,483
	3,598	**3,648**	**3,483**
Current guarantee deposits	92	1,283	1,248
	92	**1,283**	**1,248**
Total deposits	**3,690**	**4,931**	**4,731**

/i/ Long-term 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)

20. PREPAID EXPENSES AND ACCRUED INCOME

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Prepaid lease expenses (IRU agreements)	9,500	10,500	11,500
Non-current prepaid expenses	**9,500**	**10,500**	**11,500**
Prepaid service expenses	1,583	1,985	1,940
Prepaid lease expenses (IRU agreements)	1,000	1,000	1,000
Current prepaid expenses	**2,583**	**2,985**	**2,940**
	12,083	**13,485**	**14,440**

21. 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** *Restated*	**1 January 2014** *Restated*
Bank balances	20,298	25,803	62,621
Foreign currency account balance	61	107	5,230
Cash in hand	10	10	22
Cash and cash equivalents	**20,369**	**25,920**	**67,873**

22. 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)

22. 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**
Profit for the year attributable to ordinary equity holders of the Company in HRK thousand	12,223	26,556
Weitghted average number of ordinary shares for basic earnings per share	63,556,808	63,265,919
Profit per share	**0.19**	**0.42**

(All amounts are expressed in thousands of kunas)

22. 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)

23. 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	3,262
Long-term portion	**209,303**	**208,011**	**3,262**
Amounts due to banks	-	1,186	608,069
Financial lease obligations	434	710	1,401
Short term liabilities under long-term tax reprogramming arrangement		-	-
Short term portion	**434**	**1,896**	**609,470**
Total received loans and borrowings	**209,737**	**209,907**	**612,732**

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	206,460	547,155
HRK	3,437	3,447	64,674
USD	-		903
Long-term loans and borrowings	**209,737**	**209,907**	**612,732**

The weighted average interest rate on received short-term and long-term loans and borrowings is 4.46 % (2013: 6.75%).

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	206,568	285,383
Received loans and borrowings	**209,737**	**209,907**	**612,732**

(All amounts are expressed in thousands of kunas)

24. 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)

25. 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	-	29,415	-
Non-current	**10,155**	**43,173**	**9,199**
Domestic trade payables	43,082	46,629	232,397
Foreign trade payables	5,046	2,251	5,199
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement	29,412	27,625	-
Content	13,971	17,470	17,613
Current	**91,511**	**93,975**	**255,209**
Total trade payables	**101,666**	**137,148**	**264,408**

26. OTHER CURRENT LIABILITIES

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
VAT payable	1,143	3,997	9,706
Net salaries	3,181	1,853	1,887
Taxes and contributions on salaries	1,685	1,015	1,492
Other amounts due to the state	-	103	754
Other liabilities	2	21	66
	6,011	**6,989**	**13,905**

27. ACCRUED EXPENSES AND DEFERRED INCOME

	31 December 2015	**31 December 2014** *Restated*	**1 January 2014** *Restated*
Deferred equipment rental income	21,835	20,240	22,807
Total long-term	**21,835**	**20,240**	**22,807**
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	**32,238**	**33,510**

(All amounts are expressed in thousands of kunas)

28. 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

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	
Optima telekom d.o.o., Koper. Slovenija	411	371
Optima direct d.o.o.	-	2.066
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
Optima telekom d.o.o., Koper. Slovenija	1.530	1.535
Optima direct d.o.o.	388	24.776
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	-
Optima telekom d.o.o. Koper, Slovenija	2.758	166
Optima direct d.o.o.	5.468	3.650
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)

29. COMMITMENTS

Operating lease commitments

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

Operating lease charges:

	31 December 2015	31 December 2014
Current year expense	27,092	33,698
	27,092	**33,698**

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.

Capital commitments

The Company 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)

30. FINANCIAL INSTRUMENTS

During the period, the Company 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.

30.1. 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 statutory financial statements.

Categories of financial instruments

	2015	**2014**
Financial assets		
Non-current and current loans	20,256	15,956
Cash and cash equivalents	20,369	25,920
Trade receivables	71,121	71,882
	111,746	**113,758**
Financial liabilities at amortised cost		
Issued bonds	71,085	70,555
Borrowings	209,737	209,907
Trade payables	101,666	137,149
	382,488	**417,611**

(All amounts are expressed in thousands of kunas)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.2. Foreign currency risk management

The carrying amounts of the Company'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 Company is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna to the euro US dollar..

The following table details the Company'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)

30.3. Interest rate risk

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

The Company 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.

30.4. Other price risks

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

30.5. 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 Company. The Company has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Company has adopted procedures which it applies in dealing with customers. The Company obtains sufficient collaterals, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company does not guarantee obligations of other parties.

The Company 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 Company is exposed to risk through cash deposits in the banks. At 31 December 2015, the Company had business transactions with 14 banks (2014: 14 banks). The Company 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)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.5. 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**
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
Residential	26,946	29,258
Other	99	102
	43,077	**46,598**

(All amounts are expressed in thousands of kunas)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.6. 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 Company 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 Company'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	48,444	23,202	12,225	156,846
Interest bearing	4,54%	3,944	11,836	178,729	204,354	398,864
		76,919	**60,280**	**201,931**	**216,579**	**555,709**
2014						
Non-interest bearing		67,872	47,637	57,013	13,480	186,001
Interest bearing	4,46%	3,149	13,196	149,869	249,868	416,083
		71,021	**60,833**	**206,882**	**263,348**	**602,084**

Non-interest bearing liabilities of the Company due in a period of up to one year consist mainly of trade payables (including content providers).

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.7. 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-bancruptcy 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.