OT - Optima Telekom d.d.

Annual Report of the Group for 2016.

2016

Optima TELEKOM

Corporate Governance and General Information

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

Optima Telekom Group Members and Regional Centers

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I. Management Report

Throughout the report under the term „Company“ is considered also „the Group“, given that the operations solely apply to OT - Optima telekom and subsidiares have irrelevant impact.

Introduction

I. 1

In 2016, the Company has continued to operate successfully, which is also evident from the fact that the Company concluded a Merger Agreement with an electronic communications operator, H1 TELEKOM d.d. Split, Dračevac 2/d, OIB: 88551335012, dated 29 July 2016.
Pursuant to the above Agreement, after obtaining the required approvals and consents, H1 as the merged company will be merged with Optima as the acquiring company. Assets, rights and obligations of H1 will be transferred to Optima in their entirety, without the need to liquidate the merged company. In consideration for the transferred assets, rights and obligations of H1, Optima shall transfer the appropriate ratio of Optima shares to H1 shareholders. The purpose of the merger is to achieve positive synergies between the companies and to increase Optima's value for its current and new shareholders (former H1 shareholders). The Company has determined that connecting business-wise, organisationally, legally and financially is in the mutual interest of Optima and H1, considering that the merger and achieving the envisaged synergies will increase business efficiency and decrease costs, which could accordingly have a positive impact on the value of Optima as the third respectable operator in the fixed telephony market.

Pursuant to the Competition Act, on 29 July 2016 Optima has filed a Notification of a Proposed Concentration between Optima and H1 with the Croatian Competition Agency. The proceedings are pending.
Considering these circumstances, Hrvatski Telekom d.d., Zagreb, Roberta Frangeša Mihanovića 9, OIB: 81793146560, being the company that gained control over the management of the Company by virtue of AZTN decision Class: UP/I 034-03/2013-02/007 of 19 March 2014, filed a motion dated 29 July 2016 with the AZTN to prolong temporary management until 2021. AZTN decision is pending.
Pursuant to the relevant provisions of the Companies Act, as well as Statute provisions, the Company has convened an extraordinary General Meeting for 25 January 2017. The General Meeting is to decide on the approval of the Merger Agreement, as well as other decisions required for the registration of the merger with the competent Court Registers. After the adoption of all proposed General Meeting decisions, they will obtain legal effect upon AZTN's positive decision on the clearance of the concentration between the Company and H1 telekom d.d., as well as a positive decision regarding the motion filed by Hrvatski telekom d.d., Zagreb, Roberta Frangeša Mihanovića 9, OIB 81793146560 (hereinafter: HT) to prolong the conditionally approved concentration between HT and OT – OPTIMA Telekom d.d. based on the decision Class: UP/I 034-03/2013-02/007 dated 19 March 2014, for an additional period of three years.

All approvals required to carry out the merger have not been obtained until the date of this report.

During the observed period, the Supervisory Board has reappointed the Chairman of the Board of Directors, Mr. Zoran Kežman, and the Members of the Board of Directors, Ms. Mirela Šešerko and Mr. Tomislav Tadić to the same functions. Pursuant to the mentioned Supervisory Board decision, the term of appointment is two years, starting at the end of the previous term.
There were no changes to the Company's supervisory body, and the ordinary General Meeting took place on 26 April 2016.

Just as in the previous two-year period, the Company continues to duly perform all due obligations undertaken in the Pre-bankruptcy Settlement executed before the Commercial Court of Zagreb on 30 April 2016, case reference Stpn-354/13, and reports to the public regarding the said actions in accordance with the Financial Operations and Pre-bankruptcy Settlement Act via FINA's website, www.fina.hr.
Apart from publications on Fina's website regarding the issues related to the implementation of the Pre-bankruptcy Settlement, the Company is informing the public on the fulfilment of obligations in a timely and transparent fashion in accordance with the relevant laws and regulations in the field of capital markets.

I. 2 Statement by the Chairman of the Board

Another successful year is behind us. Thanks to our proactive market approach and orientation towards customers through the provision of quality and substantial services, in 2016 we also realised excellent financial results and market achievments. We are particularly proud of reversing the income trends. Thanks to the customer base expansion, we have achieved an increase of overall operating income by 3.8 per cent and additionally strengthened our market position. The income increase consequently influenced the increase of the operative result, i.e. EBITDA, which is 2.9 per cent higher in 2016 than in 2015. Our positive results are even more significant when taking into perspective the negative income trends in the entire fixed networks market during the last several years.

Zoran Kežman,
Chairman of the Board

Along with the abovementioned, and thanks to the synergy effects under HT's management, we have realised significant operative savings, which has enabled us to invest further into the development of services and technologies. Our investments have mostly been oriented towards the expansion of the VDSL technology, providing our customers with higher internet speeds, as well as towards our own network infrastructure, in order to improve the quality of services and expand functionalities. Moreover, in order to remain competitive in the corporate sector, we continue to adjust our service portfolio which we successfully expanded to ICT services in 2016, which resulted in an increased income in the business segment as well.

The successes from 2016 are motivating us additionally for new achievments in 2017. We wish to raise customer satisfaction even more by focusing on all the steps the customer is taking with us, from improving the services themselves, purchase methods, to technical support during the use of the services. With that, we shall certainly continue to invest into further development of the infrastructure which allows for high internet speeds. Considering the excellent results we are achieving in the ICT segment, we shall continue to expand this portfolio. The success in further adjusting and getting closer to the customer shall have a direct impact on our future results in the dynamic telecommunications market.

Market Overview

I. 3

Fixed Telephony Market

The fixed telephony market in Croatia is still recording negative trends.
The total outgoing traffic (in minutes) of all fixed public communications network operators in the third quarter of 2016 was 9.3 % lower compared to the previous quarter. During this period, the revenues have also dropped by 2.3%.

This negative trend in the fixed telephony market has been present for a while now and is predicted to continue in the future.
The ratio between the total outgoing traffic (in minutes) with all fixed public communications network operators in the third quarter of 2015 and the third quarter of 2016 is negative by 9.4%, while the ratio of retail income has shown a significant 11.0% decrease.

Broadband Access Market

At the same time, in the third quarter of 2016, the slight growing trend in the use of broadband Internet acces via fixed networks continued. Compared to the second quarter of 2016, the number of broadband access via fixed network connectins increased by 1.4% in the third quarter of 2016, while revenue has increased by 4.0%.

Compared to the third quarter of the previous year, in the third quarter of 2016 the number of broadband access connections via fixed networks increased by 5.3%. At the same time, revenue increased by 5.4%.
It is predicted that this market will continue to grow at a stable growth rate.

IPTV-a Market

The Internet protocol based television (IPTV) market has also grown. Compared to the previous quarter in 2016, the total number of connections in the third quarter of 2016 is higher by 0.7%.

Comparing the total number of connections at the level of the third quarter of 2015 and the third quarter of 2016, it shows an increase of 2.3%.
It is predicted that the entire IPTV market will continue to grow in the future.

Economic Environment

I. 4

An unexpectedly high GDP increase rate of 2.8% was achieved again in the second quarter of this year, thus keeping the growth dynamic for the first half-year period at 2.7%. The increase in the export of goods continues to have the prevalent impact on the achieved growth, but the first six months of this year have also been characterised by a recovery of domestic demand. This demand consists of personal consumption which increased by 3.1%, government consumption which actually increased by 1.7% and gross investments which grew by 5.4%. The GDP increase rate in the first six months was at the same level as in the rest of the EU, i.e. only slightly more dynamic. Namely, according to deseasoned data, Croatia grew at the rate of 2.1% and the EU at the rate of 1.9%. Should this ratio continue, at the year end there should only be a minimal approximation to the EU average.
In July, consumer prices were 1.5% lower than one year ago, which is a slightly milder drop than that in the previous months. This continues the trend of a negative annual change in prices which has been ongoing for a year now. However, it should be noted that a price increase exceeding 0.1% has not been recorded since the end of 2014.
There are positive and optimistic indications in the employment trends, but the dynamic of positive changes is too slow, especially considering the low base (a continued drop over six years) and putting the employment in Croatia in the EU average context (Croatia has the second lowest employment rate of all EU members). Also, it is noticeable that the dynamics in the employment and the unemployment sectors differ. Namely, in the unem-

ployment segment the trends are much more favourable than in the employment segment: the number of unemployed persons of 217.089 in July was the lowest ever since we have somewhat comparable statistical data, while the number of employed persons is far from the pre-crisis years. This is because the slight movements in employment and much more dynamical movements in unemployment are influenced by (unfavourable) demographic trends and the growing economic emigration.

The salary increase at the annual level has been recorded in all the months of this year, the increase in the average gross salary being more prominent than the increase of the net salary. This is connected with the fact that changes in income taxation which influenced a significant growth in net salaries during the previous year ceased to have effect. At the same time, due to the decrease in consumer prices, there is a higher increase in actual than in nominal salaries. The average monthly gross salary is 2.0% higher than in the first half-year period of the previpus year, while the net salary is 1.6% higher in that same period. Considering the deflation, the gross salary actually increased by 3.6% and the net salary by 3.1%. The salary increase influences the increase of available funds for the population, raises the tendency towards consumption and finally, through the increased personal consumption, contributes to the achievement of economic growth.

The exchange rate has been relatively stable. Compared to the previous year, the average value of the Croatian Kuna in the first eight months was only 0.9% higher than in the same period of the previous year. This change has been somewhat more prominent than in the previous three years, but still small enough to be able to consider the exchange rate stable. Compared to the beginning of the year, at the end of August the value of the Croatian Kuna was 2.1% higer, and 0.9% higher compared to the end of August of the previous year. This seasonal pattern of exchange rate fluctuations is usual and was present in the majority of the previous years if there were no extraordinary circumstances which impacted the exchange rate.

At the end of July, 31 455 business entities had overdrawn accounts with HRK 19.2 billion outstanding payment titles. This level of outstanding payment titles was last recorded at the beginning of 2009, but with 74% more entities with overdrawn accounts. This means that the average debt amount is significantly higher now, by as much as 68%. However, the decreasing trend in the value of overdrawals and the number of debtors (albeit at a slower pace in the last two months) has continued ever since the implementation of the Financial Operations and the Pre-Bankruptcy Settlement Act at the end of 2012, and received an additional boost with the new Bankruptcy Act which entered into force in September of last year. And so, compared to the previous year there are 14.9 thousand less entities with overdrawn accounts, and the value of outstanding payment titles is lower by HRK 7.9 billion.

I. 5 Regulatory Environment

In this reporting period, the Croatian Regulatory Authority for Network Industries (hereinafter: HAKOM) rendered final decisions in all proceedings for the change of monthly charges for wholesale services of HT, as an operator with significant market strength. The Company uses HT's wholesale services in order to provide retail services to its end customers.

Based on the updated cost model, HAKOM has calculated the new wholesale price for the monthly charge for unbundled access to the local loop service (hereinafter: ULL) in the amount of HRK 49.53, effective as of 1 January 2017. Given that the monthly charge amount for the ULL service is calculated into the price of the wholesale broadband access service when the end customer gains basic access to the network through the user operator (hereinafter: NBSA service), HAKOM has accordingly changed the price of the NBSA service and defined the division of monthly charges for speeds up to 30 Mbit/s and over 30 Mbit/s. Compared to the previous prices, the new prices for the ULL service and the NBSA service for speeds exceeding 30 Mbit/s are higher, while the price of the NBSA service for speeds up to 30 Mbit/s is lower. HAKOM has calculated the new wholesale price of the monthly charge for the wholesale broadband access servise and the prices of monthly charges for the wholesale high quality access service, which are lower than the previous prices. Compared to the previous prices for the service of call termination on individual public telephone networks provided at a fixed location and call origination on the public telephone network provided at a fixed location operated by HT, the new prices calculated by HAKOM are higher.

Based on the "retail price minus" method, HAKOM also concluded the process of changing the prices of wholesale line rental services (hereinafter: WLR services), the new prices being higher than the previous ones. All the new wholesale service prices shall apply as of 1 January 2017, apart from the prices of interconnections in the fixed public communications network and the prices of WLR services which shall apply as of 1 July 2017.

Regarding the regulatory obligations that HAKOM imposed on Optima, being a company under HT's control, by rendering final decisions in the market analyses of the market of wholesale (physical) network infrastructure access at a fixed location and the market of wholesale central access at a fixed location for products for the mass market, we would like to point out that the Company duly implements the margin squeeze test for every retail price of regulated services (network access services, internet access services with the connected IPTV service), regardless of whether this service is provided independently or as a part of a package including other electronic communications services. However, it should be noted that in this reporting period HAKOM has updated the Methodology of the Margin Squeeze Test and that the new methodology applies as of 1 January 2017.

Out of the more relevant changes to legislation in force in the field of electronic communications, one should point out the entry into force of the new provisions of the Ordinance on the manner and conditions for provision of electronic communications networks and services. Namely, the operator's obligation to ensure that customers have a minimal broadband internet access speed of 70 per cent of the maximum speed agreed for all services, as well as the obligation that in the event of reported and ascertained failures going on for over 24 hours, the operator is always to offer the customer a discount on the bill or another way of compensation without the need to object to the bill, shall apply as of 1 January 2017.

The new Public Procurement Act has been enacted in this reporting period, incorporating EU directives in the field of public procurement. The new Public Procurement Act brings simpler and more effective public procurement rules for contracting authorities and economic operators, and shall enter into force on 1 January 2017.

I.6 Business Indicators and Segments

Number of Customers 1	31.12.2016	30.09.2016	31.12.2016/ 30.09.2016	31.12.2015	31.12.2016/ 31.12.2015
Business					
PVS 2	13.324	13.439	-0,9%	13.885	-4,0%
IPTV	1.090	1.083	0,6%	1.078	1,1%
Internet	11.653	11.717	-0,5%	11.779	-1,1%
Data	1.424	1.408	1,1%	1.365	4,3%
Residential					
PVS	136.842	139.260	-1,7%	139.963	-2,2%
IPTV	30.112	29.617	1,7%	27.287	10,4%
Internet	89.027	89.565	-0,6%	88.310	0,8%

NOTE: 1, 2

a. Residental Sales Segment

In the fourth quarter of 2016, Optima Telekom has continued to invest in marketing and sales activities aimed at the decrease in outflow of existing customers and the increase of the inflow of new customers.

Thanks to this, success has been achieved in the residential segment concerning revenues for all types of services, except public voice services, while a significant increase in revenue has been achieved in the field of broadband Internet access and IPTV service.

Compared to the number of fixed public voice service residential customers in 2015, Optima Telekom has concluded the year 2016 with a 2.2% decrease of customer base, while in the fourth quarter of 2016 compared to the third

1

The data provided is different than dana previously published in the Company's financial reports for 2015, but only in respect of the number of customers. This is a consequence of circumstances which occurred after the publication of financial reports, but which reflected on reporting.

Namely, within the structure of providing services to end customers, there is a change regarding the used wholesale service. Instead of the earlier practice of realization of services using the ULL or WLR+CPS+BSA wholesale services, new services are realized using the ULL or NBSA wholesale service. In cases when the PVS is realized via ULL or the wholesale WLR+CPS or WLR+CPS+BSA service, the PVS access revenue is included in the PVS revenue category. However, in cases when the voice service is realized by using the wholesale NBSA service, the access revenue is allocated and reported in the category of Internet revenue, considering that the entire service (both the voice and Internet service) has been realized through broadband Internet access. Regardless of the wholesale service used, the revenue resulting from minutes of conversation is always reported as PVS revenue.

2

Methodology change: Within the number of business PVS customers, major business customers using only Internet and data services have been factored in. Previous periods have been updated to have comparable data.

quarter of 2016 the fixed public voice service residential customer base has had a drop of 1.7%. However, the negative trends in revenue from fixed public voice service at the entire market level also reflect on Optima's revenue. Thus the revenue from fixed public voice service residential customers is 14.1% lower in 2016 compared to the previous year, and in the fourth quarter of 2016 revenues are 0.9% lower compared to the third quarter of 2016. However, considering the revenue trends in 2016 and 2015, it is obvious that in 2016 Optima slowed down the revenue drop in this segment compared to the revenue drops in previous periods.

In the broadband internet access segment, Optima is recording further increases in revenue and customer base expansion. In the 2016, the broadband internet access revenue has increased by 18.0% compared to 2015, and the fourth quarter revenues increased by by 1.7% compared to the third quarter of 2016. At the same time, the customer base also expanded by 0.8% at the annual level compared to 2015, and by 0.6% when comparing the fourth and third quarter of 2016.

There was a customer base increase in the residential customers IPTV segment as well, both at an annual and quarterly level. At the annual level, there is a significant customer base increase by 10.4%, with a 15.2% increase in revenue. Compared to the third quarter of 2016, the customer base expanded by 1.7%, while the revenues are 2.9% higher.

b. Business Sales Segment

In business sales the targeted activities of all sales channels continued throughout the fourth quarter of 2016, aimed at increasing the inflow of new connections, increasing the value of services in the existing customer base and offering a wide portfolio of ICT solutions and services.

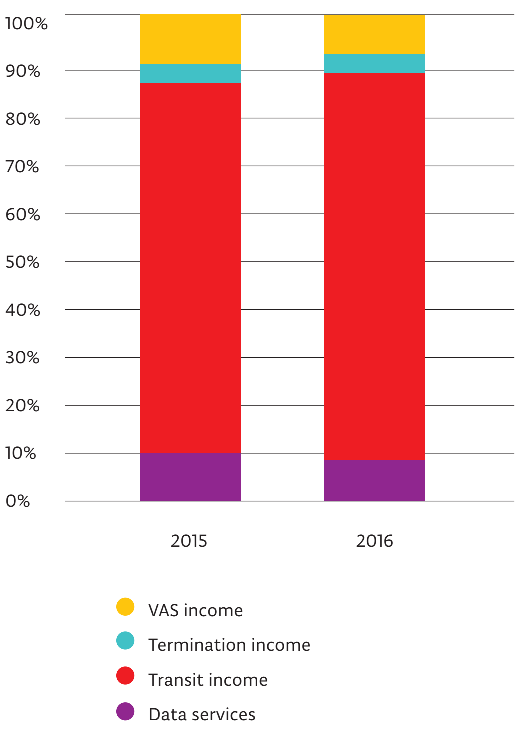
In the public voice service segment, compared to 2015, Optima Telekom has concluded 2016 with a 9.1% revenue drop and 4.0% decrease in the number of connections. Comparing the end of the fourth quarter and the end of the third quarter of 2016, we have observed a 3.1% revenue drop and a 0.9% decrease in the number of connections as a consequence of seasonal effects, and further migrations and optimisation of the public voice service in large corporate customers by switching to more advanced IP solutions, thus decreasing the number of connections and the use of the service. Negative trends in the fixed public voice service business customers segment have been recorded at national level as well, which is the primary cause of the negative trend within Optima. The negative trends in the fixed public voice service segment at a national level are equally predicted in the future.

In the broadband Internet access segment there has been a slight 1.1% drop in the number of connections and a 11.4% increase in revenue compared to 2015. In line with the market expansion trend and a growing demand for higher speeds in this segment, Optima is generally growing. However, compared to the third quarter of 2016, in the fourth quarter of 2016 stagnation has been observed as a result of seasonal effects, and so revenues slightly decreased by 0.8% with a 0.5% decrease in the number of connections.

In the data services segment there was an increase in the number of connections by 4.3%, and a 15.0% increase in revenue at the annual level. In the fourth quarter there was a slight revenue drop by 0.9% compared to the third quarter of 2016, because of the realisation of long term projects of connecting key customer locations into private data networks in line with the demands of business operations, organisation, safety and upgrading infrastructure.

During the fourth quarter of 2016 business sales are still greatly focused on offering ICT solutions to business customers in cooperation with several renowned partners. There were significant activities with an aim to constantly expand the partner netwoek and the portfolio of ICT solutions and services. In 2016, the revenue achieved amounted to HRK 1.0 million. In the future period we expect to further expand our internal organisation and partner network to be able to respond to market demands and offer a broad spectrum of innovative solutions to both existing and new customers and to increase the revenues from this business segment.

Interconnection Income Structure



Data Source: Company's business records

In 2016, the wholesale services sales revenue increased by 12.5% compared to the previous year. Within these, the wholesale voice services sales (transit) revenue increased by 17.9%. This increase is a result of the positive impact of regulatory changes, i.e. the deregulation of the interconnections charge in international calls originating outside the EU/EEA.

At the same time, the drop in revenues from wholesale data services decreased, which now deviates 3.3% compared to 2015. The drop is slowing down in termination revenues as well, and they are 11.5% lower at the annual level compared to 2015. In the upcoming period, we anticipate that termination revenues will remain at the levels from 2016.

In 2016, VAS service sales revenue decreased by 4.2%, which is the expected effect affter the 30.7% increase in the previous year.

c. Infrastructure, Optical Fiber Network and Internal Services Development

Voice Networks

During 2016, the internally developed class 5 NGN switchboard, used for providing voice service to residential customers and to small business customers, has been upgraded.
The internally developed class 5 NGN switchboard used to provide voice service to business customers for the business trunking service has been integrated into the voice network.
The SBC-IC (Session Border Controller – Interconnection) system has been integrated, enabling the technological migration of existing TDM/ISUP IC connections to the IP/SIP IC connection. Technological progress and regulatory changes made it possible to achieve interconnections for voice interconnections by using new technologies and protocols (IP/SIP). The precondition was to introduce a new SessionBorderController system into Optima's voice network. This created the prerequisites for diminishing existing interconnection capacities for voice interconnections using older technologies (TDM/ISUP) to a minimum.
During 2016, within the integration, extensive functionality testing has been carried out when interconnecting voice networks with four domestic operators and the migration of voice traffic from the existing TDM/ISUP IC connections to the new IP/SIP IC connections for three domestic operators.
Furthermore, a new system for advanced supervision and in-depth analysis of the customer and operator voice traffic in Optima's voice network core has been integrated, which provides a higher quality and more detailed analysis of realized calls, a faster and higher quality response to customer and operator issue reports, as well as a prompt analysis and troubleshooting when connecting new customers into the voice network.
The upgrade of the Centrex class 5 switchboard used to provide voice services to business users of the OptimaLAN Office service has been carried out successfully and the customer migration is ongoing.
The internally developed central system for intelligent call management has been integrated into the voice network, which allowed for further independent development of additional services in the core of Optima's voice network.

Data Networks

In 2016, the upgrade of capacities and the increase of redundancy of the existing MPLS routing tables to a total of 60 nodes has been completed. In the second half of 2016, telecommunication connection capacities towards the town of Drniš have been expended, thus enabling the provision of the IPTV service using ULL access.

At the end of 2016, the new series of Metro-Ethernet switches has been procured, which started the project of upgrading Ethernet switches in the MAN (Metro Area Network) aggregation part of the network.

In 2016, the existing ADSL capacities have been expanded and optimised to a total of 263 ULL collocations. Equipment has been procured for the expansion of 3,200 new combinded POTS/ADSL2+ interfaces.

In the access ULL part of Optima's network, the VDSL access technology coverage has been expanded in 2016.

The new BRAS system has been integrated into the network environment, which increased the capacities for accepting new Internet users and raised the redundancy level within the BRAS systems as well. The interconnection capacity of the BRAS system and the Internet network has been increased by installing additional interfaces with a 10Gb/s capacity.

The system for automatic configuration of user equipment has been upgraded (ACS – Automatic Configuration Server – TR069) because of the increase in the number of broadband access users.

The new APOD system (Automatic Proactive Optimisation of DSL lines) has been developed and successfully tested in 2016, first in a test environment and then in a limited production environment in the areas of Sisak and Varaždin, under controlled conditions. The full integration of the APOD system into Optima's network environment will follow, aiming at a regular, automantic optimisation of XDSL line parameters, which will result in the stabilisation of XDSL lines in the entire territory of Croatia, decrease the number of malfunctions, thereby increasing customer satisfaction.

By the end of 2016, the interconnection with a total of four (4) Internet service providers has been carried out. The total capacity of the interconnection is 8x10Gb/s. The interconnection with over 80 operators for direct exchange of Internet traffic at the CIX (Croatian Internet eXchange) in Zagreb and the VIX (Vienna Internet Exchange) in Vienna has been carried out, with a total interconnection capacity of 2x10Gb/s.

The upgrade of telecommunications connections for interconnecting the networks of Hrvatski Telekom and Optima has been carried out in order to exchange bitstream traffic. Multiple interfaces with 1Gb/s have beem upgraded by multiple interfaces with the capacity of 10 Gb/s. The migration of traffic from old domains into new interconnection domains is ongoing.

In the mobile part of Optima's network, and within the project of replacing DWDM (Dense Wavelength Division Multiplexing) equipment produced by ECI Telekom with a more modern system produced by Nokia Alcatel-Lucent, the DWDM network has been fully upgraded in the Zagreb – Sisak – Slavonski Brod – Borinci – Osijek sections, which ensured capacities for further unhindered growth. Also, technical preliminary activities have been carried out that are a prerequisite for the execution of the second part of the project of replacing DWDM equipment in the Zagreb – Kozina (SLO) – Rijeka section, and in the international part of the mobile network in the Zagreb – Ljubljana (SLO) – Vienna (A) section.

In 2016, new IPTV channels have been promoted through Optima's network: Sport klub 4, 5 and 6 (in SD format) and Sport klub 1, 2 and 3 (in HD format), HBO3 (SD) and HBO3 (HD), Orlando Kids (SD), Grand TV (SD), Fight Chanel World (HD), HRT2 (HD), Laudato TV (SD), CNBC (SD), Fight Cannel (Pay Per View) (SD), and HNTV (SD).

Network Infrastructure and Optical Fibre Network

Optical infrastructure development, i.e. the construction of the individual optical fibre network throughout 2016 consisted primarily of the construction of optical feeds to our new end wholesale and retail customers and one optical route between Krk and Punat.

In numbers, we are talking about 73.5 km of new optical fiber network in all four quarters, consisting of the construction of 231 new optical feeds and one optical route. Most feeds have been built in Northern Croatia (101 feeds), followed by the West (64 feeds), South (33 feeds) and East with 33 optical feeds.

In the fourth quarter alone 40 new optical feeds have been constructed (a new 7.5 km). Most optical feeds have been constructed in Northern Croatia (26), followed by Eastern Croatia (6), Western Croatia (5) and Southern Croatia (3).

Supervision (NOC)

Through the migration of performance supervision from the old Cacti system to the new Zabbix supervision system (BRAS and CGNAT systems, collocation routing tables, radio systems: Pasoling, Ubiquiti and Mikrotik as well as firewall systems), the supervision of telecommunications systems and services has been expanded and improved in the first half of 2016.

For that same purpose, new systems have been added to the supervision (Session Border Controller – systems for SIP/IP interconnection of voice networks, new VDSL Iskratel cards, supervision of IPTV flow traffic received from provider, telecommunications 10Gbps connections for bitstream interconnections with HT, HaloSurf optical user interfaces).

The system has been upgraded with new functionalities with a view to discover the source and destination of DDoS attacks, expanding the active supervision of the number of customers (Bitstream and large business customers) by county, controlling the execution of automatic configuration of IPTV channels on DSLAM systems and adding the function of selecting individual parameters that are supervised for reporting purposes as to their quality level to either the end customer or internally for business purposes.

Technical Services

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

Additional adjustments to the troubleshooting process have been carried out in preparation for the new regulations, work order parking at the customer's request has been introduced and clearer definitions of malfunction causes have been created.

Internal Application Development

During the first half of 2016, the databases have been migrated to a new version, new servers and a new disc system, which creates greater stability and faster query response in databases (faster account processing, getting reports, faster query response in CRM, etc.).

In cooperation with our partners, a new sales management system has been introduced ("campaigning"), which enables a higher quality and more efficient routing and monitoring of the sales force in the field and a system for managing human resources.

New systems have been internally developed for the customers' mail service (reducing SPAM), for authentification and authorisation (increasing system stability and IPv6 support) and protection of DNS servers from DDoS attacks.

With a view to enhance efficiency of the customer activation process and troubleshooting, availability control systems have been redesigned, the malfunction repair system at the second level (SMC) and the work order system.

In line with new regulations, the error report systems have been changed and a new system for B2B communication with third operators via HAKOM's service has been developed.

The end to end test platform has been developed, which enables higher quality testing of new services and packages prior to production testing.

In line with modern IT sector trends, the Company transferred to the Microsoft Office365 cloud, which enhanced business efficiency, data safety and better collaboration.

Infrastructure

The project of switching batteries in collocations which started in the first half of 2016 continued, with the aim to secure the system's autonomy in the event of an electrical grid failure.

ICT Solutions

Through ICT solutions, a complete business solution has been offered to customers alongside Optima's standard services, which creates added value to the same. During Q4 we have significantly increased the number of sales opportunities, which will reflect on the realisation of income in 2017.

Optima's partner base is expanding constantly, which will enhance the Company's presence in the market, and in the upcoming quarters the solution portfolio is expected to expand.

During the fourth quarter the preconditions for the first three standardised services according to demand and market needs have been successfully met, these being vehicle surveillance services, rent of multifunction devices and Office 365 offer.

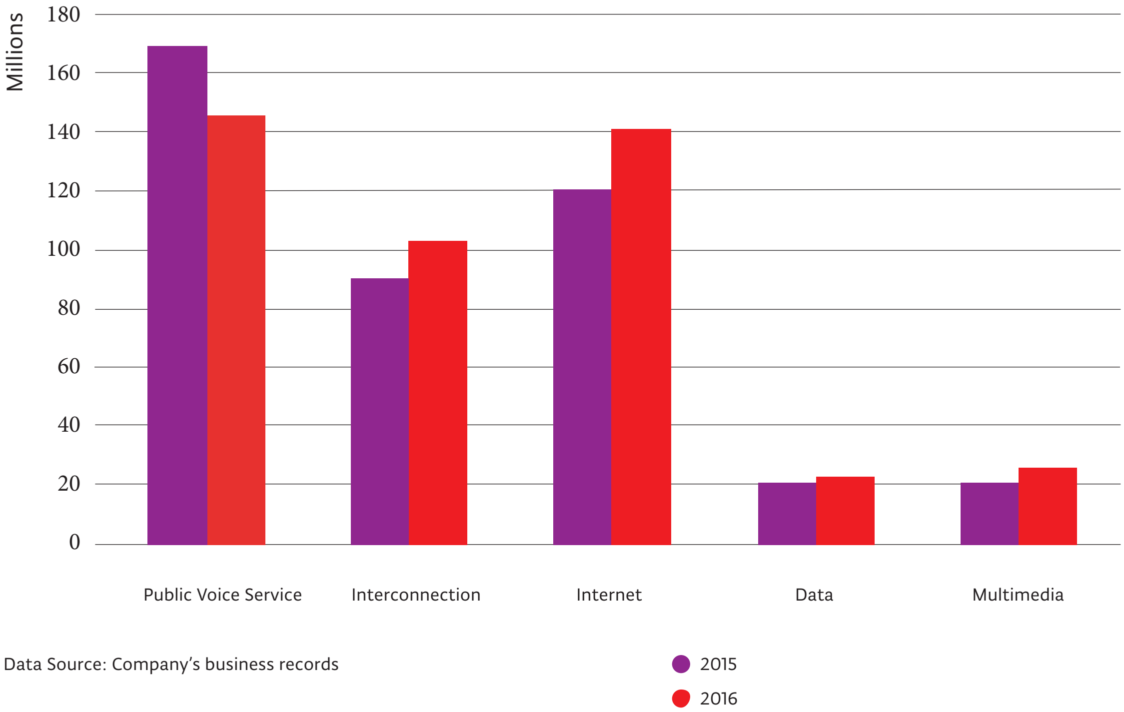
In the upcoming periods we will be optimising internal processes and strengthening the focus of the sales organisation on offering a wide portfolio of solutions.

Financial Results of the Group

Summary (*in tsd HRK*)	2015	2016	2016/ 2015	Q4 2015	Q4 2016	Q4 2016/ Q4 2015
Total income	437.703	454.287	3,8%	105.322	112.292	6,6%
Total expenses	335.342	348.969	4,1%	77.312	81.938	6,0%
EBITDA	102.361	105.319	2,9%	28.009	30.355	8,4%
One times items	4.029	891	(77,9%)	428	173	(59,6%)
EBITDA before one times items	**106.390**	**106.210**	**(0,2%)**	**28.438**	**30.528**	**7,3%**
EBITDA margin (before one times items)	**24,3%**	**23,4%**	**(3,8%)**	**27,0%**	**27,2%**	**0,7%**
Depretiation	63.739	68.970	8,2%	8.801	18.608	111,4%
Financial result (net)	(25.863)	(22.531)	(12,9%)	(7.789)	(7.253)	(6,9%)
Net profit/(loss) before income taxes	12.759	13.817		11.419	4.493	
Net profit/(loss) before income taxes and one time items	16.788	14.708		11.847	4.666	

*THE RETROACTIVE DISCOUNT OF FINANCIAL OBLIGATIONS AND IPTV RIGHTS HAS BEEN INCLUDED IN 2015, AS WELL AS THE RECLASSIFICATION OF MCL EFFECTS INTO CAPITAL

Telecommunication Services Revenue



Data Source: Company's business records

a. Consolidated Revenue

Total telecommunications services revenue in 2016 is 3.8% higher compared to the the previous year.
Observing only the last quarter of 2016, the telecommunications services revenue is 6.6% higher compared to the same period of the previous year, which is an additional indicator of positive trends in 2016.
The positive trend of increase in revenue compared to the previous year is a result of the revenue increase in all service segments except the public voice service, mostly as a result of the increase in the number of customers.
At the annual level, the Company has achieved a 16.5% increase in Internet revenue, 14.5% in multimedia revenue and 7.6% in data traffic revenue.
Interconnection revenue is 14.3% higher as a consequence of greater transit income, caused by the deregulation of termination charges for international calls originating outside the EU/EEA.
On the other hand, the revenue increase is slightly diminished because of the 13.0% drop in revenue from the public voice service, as a consequence of the declining trend in the use of the public voice service at a global level.
Positive trends are visible both at the annual and quarterly level.

b. Earnings before Interest, Taxation and Depreciation – EBITDA

The consolidated EBITDA is 2.9% higher compared to the previous year, mostly due to the telecommunications income growth trend and lower special items in 2016.
The EBITDA before special items for 2016 amounts to HRK 106.2 million, which means that the achieved business result is in line with the previous year with minor deviations. This means that business stability has been achieved, with an increasing trend in telecommunications income on the one hand and cost cutting measures on the other.

c. Net profit/(loss)

Excluding special items and considering the financial costs related to the pre-bankruptcy settlement, the discounting effect for financial obligations and lower depreciation costs in 2016, the net result before special items is HRK 1.1 million higher compared to the previous year.

d. Capital Investments in 2016

Consolidated capital investments in 2016 amounted to HRK 50.0 million. Out of this,

	2016 (HRK 000)	share %
General Investments	**1.223**	**2%**
Capital Technical Investments	**48.737**	**98%**
ACCESS Network	23.725	48%
CORE Network	5.458	11%
Telecommunications Center	19.555	39%
TOTAL	**49.961**	**100%**

HRK 23.7 million has been invested in the development of access fibre optic network, expanding the collocations network, user equipment for providing the IPTV and Internet service for residential customers, as well as the equipment to connect new business customers. HRK 5.5 million has been invested into the core network which was prevalently used for further expansion of the core network onto 10G technology, while HRK 19.6 million have been invested in expanding the range of customer services.

e. Risk Management

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

Interest Risk
The Company's exposure to interest risk is not significant, given that the Company's liabilities have not been agreed subject to variable interest rates.
The remaining assets and liabilities, including issued bonds, are not exposed to interest risk.
Credit Risk
The credit risk is the risk that the other party will fail to meet its contractual obligations arising out of potential financial losses of the Group. The Group does not have a significant credit risk concentration with contractual parties possessing similar characteristics and has adopted procedures it applies in buyer transactions. The Group receives sufficient collaterals, if necessary, as a means to mitigate the risk of financial loss due to unfulfilled obligations and offers no guarantees for third party liabilities.
The Group sees its maximum exposure as reflecting in the amount of receivables from debtors, minus value depreciation reservations recognized at the financial position report date.
Apart from this, the Group is exposed to the risk of money deposits in banks. Management of this risk is focused on dealing with the most reputable banks, both domestic and international, and in both the domestic and international markets, and based on daily contact with the banks.

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

I. 8 Purchase of Own Shares

In 2016 there were no purchases of the Company's own shares.

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

In accordance with articles 250a and 250b of the Companies Act, the Company has compiled the Annual Management Report on the Status and Business of the Company and the Group for 2016, which contains the Statement Regarding the Application of the Code of Corporate Governance.

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

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

- For those shareholders who are not able to vote in the General Meeting for whatever reason, the Company has not provided proxies obligated to vote according to their instructions, with no extra costs. The shareholders unable to vote personally choose their own proxy who is obligated to vote according to their instructions.
- There is no decision on dividend payment or dividend advance, considering that the dividend has not been paid in 2016.
- During the General Meeting, the shareholders were not given the opportunity to vote using modern communications technology because this has not been provided in the Statute.
- The work of the Supervisory Board is not regulated by special internal rules. The provisions of the Companies Act apply to the work of the Supervisory Board. However, the Supervisory Board has a Committee in place for the supervision of synergy measures, in accordance with the terms of the cleared concentration between Hrvatski Telekom d.d. and the Company. The work of the abovementioned Committee is regulated by the terms set out in the Decision of the Croatian Competition Agency class: UP/I 034-03/2013-02/007, Cons. no. 580-06/41-14-096 of 19 March 2014.
- The Supervisory Board does not have a majority of independent members, as defined in the Code's recommendations. All Supervisory Board members have been elected at the Company's General Meeting with adherence to the procedure of publishing candidacies.
- The Supervisory Board Members' right to remuneration for their work has been determined in a General Meeting decision, in a fixed monthly amount.
- The Audit Committee does not consist mostly of independent Supervisory Board members. The majority of the members of the Committee are Supervisory Board Members who have a business relationship with majority shareholders, and one of them is an employee of the majority shareholder.
- The Company does not have a statement regarding bonus policies for the Board of Directors and the Supervisory Board. The Company publishes information on all payments to the members of the Board of

Directors and the Supervisory Board. The said information is published in aggregate within the Company's annual report.

- The Company carries out internal control through internal procedures which include the supervision of proper fulfilment of obligations. Therefore, witin the meaning of the Code of Corporate Governance, there is no special organisational unit dealing exclusively with internal control, apart from the abovementioned Audit Committee.

Special Note:
The Supervisory Board has in place the Committee for the supervision of synergy measures, the Committee for appointments and bonuses (founded 10 December 2015), and at the beginning of 2016 the Audit Committee was founded with the purpose of a detailed analysis of financial reports, providing support to the Company's accounding and setting up a good and quality internal control of the Company.

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

II. 1

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

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

Significant Shareholders in the Company as per 31.12.2016

II. 2

As per 31.12.2016, the Company's majority shareholder is Zagrebačka banka d.d., having a 40.32% share in the share capital. It is followed by Hrvatski Telekom d.d. with a 19.02% share in the share capital. The biggest shareholder among physical persons is Marijan Hanžeković, holding a 4.03% share.

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

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

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

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

II. 4 Changes in the Company's Governing Bodies

In 2016 there were no changes in the Supervisory Board, which continues to have nine members, specifically: Siniša Đuranović, chairman, Ariana Bazala-Mišetić, deputy chairman and the members: Marina Brajković, Jasenka Anica Kreković, Marko Makek, Ana Hanžeković, Rozana Gregorinić, Maša Serdinšek and Ivica Hunjek.

Regarding changes in the Board of Directors during the observed period, the Supervisory Board has reappointed the Chairman of the Board, Mr. Zoran Kežman and the members of the Board of Directors, Ms. Mirela Šešerko and Mr. Tomislav Tadić. Therefore, the Board of Directors continues to have four members, specifically: Zoran Kežman, Chairman, Mirela Šešerko, member, Irena Domjanović, member and Tomislav Tadić, member.

The Company does not have a written diversity policy.

Independent auditor's report to the shareholders and Management Board of OT-Optima telekom d.d.

Our opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the financial position of OT-Optima Telekom d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2016, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

What we have audited

Separate and consolidated financial statements of the Company and the Group which comprise of:

- Separate and consolidated statements of financial position as at 31 December, 2016;
- Separate and consolidated statements of comprehensive income for the year then ended;
- Separate and consolidated statements of changes in equity for the year then ended;
- Separate and consolidated statements of cash flows for the year then ended; and
- The notes to the separate and consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

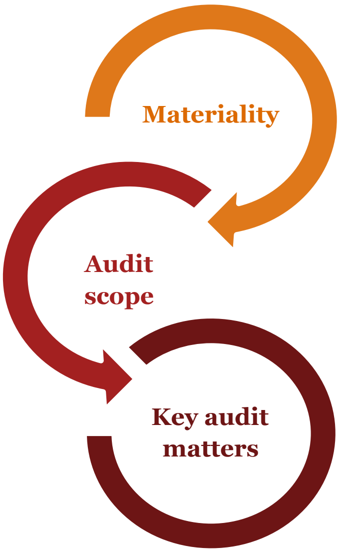
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



Materiality

- Overall materiality for the financial statements of the Company and the Group as a whole: HRK 4,000 thousand, which represents 0,90% of total revenues.

Audit scope

- We conducted an audit of the Company, while the subsidiaries are not material within the Group as a whole.
- Our audit scope addressed 99% of the Group's revenues and 99% of the Group's absolute value of underlying profit.

Key Audit Matters

- Capitalisation of content rights
- Recoverability of receivables from granted loans

How we tailored our audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate and consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Company and Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall materiality for the financial statements as a whole	HRK 4,000 thousand (2015: HRK 3,350 thousand)
How we determined it	0.9 % of total revenues
Rationale for the materiality benchmark applied	We choose total revenue as the benchmark because it is the benchmark against which the performance of the Company and the Group is measured, in terms of both its market share and customer base. In addition, net profit/loss for previous years was volatile while revenues are a more consistent measure of performance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Capitalisation of content rights *Refer to note 3 (Summary of accounting policies) and note 14 (Intangible assets).* We focused on this area because of the significance of the costs capitalised and the fact that there is judgement involved. There are two main risks that we addressed in our audit: (1) the risk of whether the criteria required for capitalisation of such costs have been met, and (2) the risk that management's estimate of future consideration from content contracts is not reasonable. *As disclosed in Note 14, the intangible assets include capitalised content rights in the amount of HRK 18,068 thousand for the Company and the Group as at the balance sheet date.*	In responding to this area of focus, our procedures included the following: → We obtained a detailed analysis of capitalised content contracts in current and prior periods, and reconciled these amounts to prior year information and current year general ledger. No significant reconciling differences were identified. → We have tested a sample of costs capitalised in the period by review of related contracts and invoices to assess whether they have been appropriately capitalised in line with the Company's and the Group's accounting policy. → In addition, we assessed the reasonableness of assumptions (estimated number of future customers and discount rate) used for measurement of future consideration. We compared the future customers estimate to historical data, and considered the consistency of the future growth rate assumptions with management's business plans. We also compared the discount rate used to market information. We identified no significant variances. Overall, we found that the costs were capitalised in line with the Company's and the Group's accounting policy, and management's assumptions were reasonable.

Key audit matter	How our audit addressed the Key audit matter
Recoverability of receivables from granted loans *Refer to note 3 (Summary of accounting policies) under heading "Financial assets".* We focused on this area because recoverability of receivables from granted loans is subject to significant judgement by management, both related to the timing of recognition of impairment and the estimated size of impairment. *As disclosed in Note 16, the net amount of granted loans amounts to HRK 16,230 thousand for the Company and HRK 11,168 thousand for the Group as at the balance sheet date.*	In responding to this area of focus, our procedures included the following: → We gained an understanding of each of the related loan contract terms, collection history and collateral received in respect of loans granted. → We held discussions with management and others, and challenged their assumptions. We formed our own judgement using external evidence in respect to the relevant counterparties. → We assessed the reasonableness of assumptions used in management's valuation of collateral received for loan receivables. We concluded that management's view of recoverability is within a reasonable range of outcomes in the context of the overall loan receivables.

Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Company and the Group, which includes the Management Report and Corporate Governance Statement (but does not include the separate and consolidated financial statements and our auditor's report thereon).

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and

- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tamara Maćašović.

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
14 February 2017

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

OT-Optima Telekom d.d.

and Its Subsidiaries

Consolidated and nonconsolidated financial statements

At 31 December 2016

Together with Independent Auditor's Report

Contents

Responsibility for the Annual report

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

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

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

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

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

In addition, pursuant to the Accounting Act of the Republic of Croatia Management Board is responsible for prepareing Annual Report which includes the financial statements and Management report. The Management Report is prepared in accordance with the requirements of Article 21 of the Accounting Act of the Republic of Croatia.

The Annual report is approved for issue by the Management Board on 14 February 2017:

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

Optima
OT-OPTIMA TELEKOM D.D.
ZAGREB

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

Statement of comprehensive income

At 31 December 2016

(All amounts are expressed in thousands of kunas)

		Group		Company	
	Notes	**2016**	**2015**	**2016**	**2015**
Sales	4	452,045	435,517	452,045	435,515
Other operating income	5	2,242	2,186	2,138	2,067
		454,287	**437,703**	**454,183**	**437,582**
Merchandise, material and energy expenses		(6,550)	(6,424)	(6,481)	(6,347)
Interconnection fee expenses		(163,512)	(144,402)	(163,512)	(144,401)
Rent of telecommunication equipment		(24,342)	(25,570)	(25,850)	(27,092)
Sales acquisition costs		(5,491)	(5,983)	(5,491)	(5,983)
Other service expenses	6	(63,756)	(62,688)	(63,622)	(62,594)
Staff costs	7	(50,919)	(55,457)	(50,919)	(55,404)
Own work capitalized		5,612	3,295	5,612	3,295
Depreciation, amortisation and impairment charges	8	(68,970)	(63,739)	(67,457)	(62,981)
Impairment charge on non-current and current receivables - net	9	(2,957)	(2,653)	(2,957)	(2,653)
Other operating expenses	10	(37,054)	(35,460)	(37,164)	(35,492)
		(417,939)	**(399,081)**	**(417,841)**	**(399,652)**
OPERATING PROFIT		**36,348**	**38,622**	**36,342**	**37,930**
Finance income	11	2,920	1,907	3,865	2,034
Finance costs	12	(25,451)	(27,770)	(25,451)	(27,741)
Finance costs - net		**(22,531)**	**(25,863)**	**(21,586)**	**(25,707)**
PROFIT BEFORE TAXATION		**13,817**	**12,759**	**14,756**	**12,223**
Income tax expense	13	-	(83)	-	-
PROFIT FOR THE YEAR		**13,817**	**12,676**	**14,756**	**12,223**
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME		**13,817**	**12,676**	**14,756**	**12,223**
Earnings per share (in HRK)	22	0.22	0.20	0,23	0.19

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

Signed on behalf of the Group and the Company on 14 February 2017:

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. ZAGREB

Statement of financial position

At 31 December 2016

(All amounts are expressed in thousands of kunas)

	Notes	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
ASSETS					
Non-current assets					
Intangible assets	14	42,110	45,221	42,110	45,221
Property, plant and equipment	15	290,632	307,584	283,937	299,261
Investments in subsidiaries	17	-	-	86	87
Given loans	16	396	312	396	427
Deposits	19	3,563	3,598	3,563	3,598
Available-for-sale financial assets		35	35	35	35
Other non-current assets	20	8,500	9,500	8,500	9,500
Total non-current assets		**345,236**	**366,250**	**338,627**	**358,129**
Current assets					
Inventories		119	109	119	109
Trade and other receivables	18	70,499	67,408	70,317	67,303
Given loans	16	10,772	10,767	15,834	16,231
Deposits	19	24	88	24	92
Prepaid expenses and accrued income	20	1,913	2,586	1,910	2,583
Cash and cash equivalents	21	9,670	20,418	9,562	20,369
Total current assets		**92,997**	**101,376**	**97,766**	**106,687**
TOTAL ASSETS		**438,233**	**467,626**	**436,393**	**464,816**

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

(All amounts are expressed in thousands of kunas)

	Notes	Group 31 December 2016	Group 31 December 2015	Company 31 December 2016	Company 31 December 2015
EQUITY AND LIABILITIES					
Equity					
Issued share capital	22	635,568	635,568	635,568	635,568
Capital gains	22	194,354	194,354	194,354	194,354
Other equity (MCL)	22	24,677	32,904	24,677	32,904
Foreign-exchange translation reserve		-	6	-	-
Accumulated losses		(808,729)	(819,793)	(810,592)	(822,589)
Total equity		**45,870**	**43,039**	**44,007**	**40,237**
Long-term borrowings	23	200,216	209,303	200,216	209,303
Issued bonds	24	64,597	71,085	64,597	71,085
Trade payables	25	2,226	10,155	2,226	10,155
Provisions		58	62	58	62
Deferred income	27	19,595	21,835	19,595	21,835
Total non-current liabilities		**286,692**	**312,440**	**286,692**	**312,440**
Short-term borrowings	23	8,674	434	8,674	434
Issued bonds	24	7,060	-	7,060	-
Trade payables	25	68,256	88,695	68,286	88,692
Provisions		109	509	109	509
Accrued expenses and deferred income	27	12,450	16,493	12,450	16,493
Other current liabilities	26	9,122	6,016	9,115	6,011
Total current liabilities		**105,671**	**112,147**	**105,694**	**112,139**
TOTAL EQUITY AND LIABILITIES		**438,233**	**467,626**	**436,393**	**464,816**

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

Statement of changes in shareholders' equity

For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

Group	Issued share capital	Capital gains	Other reserves	Foreign exchange translation reserve	Accumulated losses	Total
Balance at 1 January 2015	**632,659**	**194,354**	**41,129**	**29**	**(830,251)**	**37,920**
Increase of share capital based on pre-bankruptcy settlement agreement	2,909	-	-	-	-	2,909
Repayment of Mandatory Convertible Loan	-	-	(8,225)	-	-	(8,225)
Interest on MCL					(2,218)	(2,218)
Other comprehensive income – foreign exchanges differences	-	-	-	(23)	-	(23)
Profit for the year	-	-	-		**12,676**	**12,676**
Total comprehensive income for the year	-	-	-	*(23)*	*12,676*	*12,653*
Balance at 31 December 2015	**635,568**	**194,354**	**32,904**	**6**	**(819,793)**	**43,039**
Repayment of Mandatory Convertible Loan	-	-	(8,227)	-	-	(8,227)
Interest on MCL					(2,759)	(2,759)
Other comprehensive income – foreign exchanges differences	-	-	-	(6)	6	-
Profit for the year	-	-	-		**13,817**	**13,817**
Total comprehensive income for the year	-	-	-	-	*13,817*	*13,817*
Balance at 31 December 2016	**635,568**	**194,354**	**24,677**	**-**	**(808,729)**	**45,870**

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

Statement of changes in shareholders' equity

For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

Company	**Issued share capital**	**Capital gains**	**Other equity**	**Accumulated losses**	**Total**
Balance at 1 January 2015	**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**
Value on conversion rights of MCL	-	-	(8,227)	-	(8,227)
Interest on MCL				(2,759)	(2,759)
Profit for the year	**-**	**-**	**-**	**14,756**	**14,756**
Total comprehensive income for the year	-	-	-	*14,756*	*14,756*
Balance at 31 December 2016	**635,568**	**194,354**	**24,677**	**(810,592)**	**44,007**

Statement of cash flows

For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Notes	Group 2016	Group 2015	Company 2016	Company 2015
Operating activities					
Profit for the year		13,817	12,759	14,756	12,223
Adjusted by:					
Depreciation and amortisation		68,970	63,739	67,457	62,982
Interest expense	12	25,451	27,416	25,451	27,242
Net impairment of trade receivables		(183)	205	(183)	205
Net exchange differences	11, 12	(2,313)	(643)	(2,363)	(643)
(Increase)/decrease in inventories		(10)	1,346	(10)	1,346
(Increase)/decrease in trade and other receivables		(1,235)	8,840	(1,158)	7,924
Decrease in trade payables and other liabilities		(22,330)	(36,753)	(22,299)	(35,317)
Decrease in provisions		(404)	(1,923)	(404)	(1,320)
Other non-cash items		-	(23)	-	(6)
Interest paid		(21,329)	(12,701)	(21,163)	(12,701)
Net cash flows from operating activities		**60,434**	**62,262**	**60,084**	**61,935**
Cash flows from investing activities					
Payments for property, plant and equipment		(37,056)	(35,471)	(37,095)	(36,427)
Proceeds from sale of property, plant and equipment		1,053	-	978	
Repayment of loans		59		465	1,269
Given loans		-	(101)	-	(101)
Net cash used in investing activities		**(35,943)**	**(35,572)**	**(35,652)**	**(35,259)**
Cash flows from financing activities					
Repayment of finance lease liability and borrowings		(1,564)	(1,269)	(1,564)	(1,269)
Repayment of content contracts		(22,688)	(20,514)	(22,688)	(20,514)
Repayments of MCL interest		(2,760)	(2,218)	(2,760)	(2,219)
Repayments Mandatory convertible loan		(8,226)	(8,225)	(8,226)	(8,225)
Net cash used in financing activities		**(35,239)**	**(32,226)**	**(35,238)**	**(32,227)**
Net decrease in cash and cash equivalents		**(10,748)**	**(5,536)**	**(10,807)**	**(5,551)**
Cash and cash equivalents at 1 January		20,418	25,954	20,369	25,920
Cash and cash equivalents at 31 December	20	**9,670**	**20,418**	9,562	**20,369**

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

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION

1.1. Corporate information

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

The nonconsolidated and consolidated financial statements for the financial year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Management Board.

1.2. Principal activities

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

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

The ownership structure at 31 December 2015 and 2016 is set out below:

Parent

OT-Optima Telekom d.d.

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

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

1.3. Employees

At 31 December 2016, there were 321 persons employed at the Company and at the Group (2015: 347 employees).

1.4. Management and Supervisory Boards

In 2016 and 2015 members of the Management Board were as follows:

Zoran Kežman	President
Mirela Šešerko	Member
Tomislav Tadić	Member
Irena Domjanović	Member

In 2016 and 2015 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. The Company has fullfiled all of its obligations in 2016 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 nonconsolidated and consolidated financial statements have been prepared under the assumption that the Company and the Group will continue its operating activities according to the going concern principle. As at 31 December 2016, the cumulative losses of the Group amount to HRK 808,729 thousand (2015: HRK 819,793 thousand), and current liabilities exceed current assets by HRK 12,674 thousand (2015: HRK 10,771 thousand). The Company and the Group is focused still on providing Internet access services and on expanding business offer trough offering new ICT solution services in order to support their standard offer. Inspite of this, the operating profit in 2016 is lower than in previous year, mainly due to higher depreciation and amortisation costs (2016: HRK 68,970 thousand; 2015: HRK 63,739 thousand). Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

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

2.1. New and amended standards adopted by the Company and the Group:

The Group and Company adopted the following new and amended standards for their annual reporting period commencing 1 January 2016 which were endorsed by the European Union and which are relevant for the Group's and Company's financial statements:

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11.
- Equity Method in Separate Financial Statements – Amendments to IAS 27.
- Disclosure Initiative - Amendments to IAS 1.
- Annual Improvements to IFRSs 2012-2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IAS 19, IAS 34).

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 2016 reporting periods and have not been early adopted by the Group and the Company. None of these standards and interpretations are expected to have significant effect on the Group's or 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 or after 1 January 2018)*

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.
The Group and the Company assessed the impact of the new standard IFRS 9 on its financial statements as follows:

- The Company and the Group does not expect any impact from the new classification, measurement and derecognition rules on the Company's and the Group's financial assets and financial liabilities.
- There will also be no impact on the Group's and 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 and the Group does not have any such liabilities.
- The new hedging rules will not impact the Group and the Company since they do not have any hedging arrangements.
- The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The Group and the Company have not yet assessed how its impairment provisions would be affected by the new rules.

The Group and the Company plan to adopt the standard on its effective date.

- 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 international accounting standard (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.

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

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

The Group and the Company plans to adopt the standard on its effective date with prospective application. Like many other telecommunications companies, the Group and the Company currently expects this standard to have a significant impact on the Group's and the Company's financial statements, primarily in respect of the following changes (depending on the business model):

- In the case of multiple-element arrangements (such as mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This will lead to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position. As a result, the Group and the Company expects higher revenue from the sale of goods and merchandise, and lower revenue from the provision of services.
- Future capitalization and allocation of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.
- Increase in total assets on first-time adoption due to the capitalization of contract assets and customer acquisition costs.

The Group's and the Company's operations and information systems are complex, and the Group the Company is currently implementing new accounting policies, developing estimates and adjusting processes to comply with this new standard. Such effort is expected to be finalised mid-2017. As a result, at this time, it is not possible to make a reasonable quantitative estimate of the effects of this new standard on the Group's and the Company's current revenue recognition policies.

- *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. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

IFRS 16 will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

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

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

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) as endorsed by EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's 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 3. These consolidated financial statements have been prepared under the assumption that the Group and the Company will continue as a going concern.

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

The financial statements are presented in Croatian kunas. At 31 December 2016, the official exchange rate of the Croatian kuna was HRK 7.557787 against 1 euro and HRK 7.168536 against 1 US dollar (31 December 2015: HRK 7.635047 for EUR 1 and HRK 6.991801 for USD 1).

3.2. Basis of consolidation

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

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

3.3. 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 the Group, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured on a straight-line basis over the best estimate of their useful life. The amortization method is reviewed annually at each financial year-end.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Intangible assets (continued)

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

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

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

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

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

Useful lives of intangible assets are as follows:

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

Assets under construction are not amortized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. 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.

Buildings	40 years
Vehicles	5 years
Plant and equipment	5 to 20 years
Office equipment	4 years
CPE equipment	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.

3.5. 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)

3.5 Impairment of non-financial assets (continued)

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

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

The recoverable amount of an asset is the greater of the asset's fair value less cost of disposal 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.

3.6. 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)

3.7. 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 and the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

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

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

3.8. 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)

3.9. Trade and other receivables

Trade receivables are amounts due from customers 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 and the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired. Value adjustment is done according to the collection estimate. Receivables are written-off in the case when the debtor is liquidated or ceased its business activities; when the legal case is lost by the final court decision or in the case of lapse of receivables.

3.10. Foreign currencies

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

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

3.11. Retirement and long-service benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. 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 and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

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

Current and deferred taxes for the period

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

3.13. Provisions

Provisions are recognized when, and only when, the Company and the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources empodyiong economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.
Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as prepayment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14. Financial assets

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

Available-for-sale financial assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method, less any impairment. 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.

Derecognition of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3.16. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17. 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.

3.18. 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 the Group and when the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

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

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

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

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

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

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

During 2016. the Company and the Group started to offer ICT ("Information and communications technology") solution services in order to expand and support the business standard offer.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Revenue recognition (continued)

Revenue from ICT includes revenue from restructuring business processes, application management services, technology infrastructure and system maintenance. For bundled product arrangements, revenue recognition for each of the elements 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 deliverable).

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

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

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

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).

3.19. 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.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20. Subsequent events

Subsequent events that provide additional information about the Company's and the Group'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.

3.21. Earnings per share

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

3.22. Critical judgements in applying accounting policies

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

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

Useful life of property, plant and equipment

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

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23. Critical judgements in applying accounting policies

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

	Increase/ decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2016	+10	(6,1)
	-10	6,1
Year ended 31 December 2015	+10	(5,7)
	-10	5,7

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 2016	+10	6,3
	-10	(6,3)
Year ended 31 December 2015	+10	5,8
	-10	(5,8)

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

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

4. SEGMENT INFOMRATION

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

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

The Business Segment includes marketing, sales and customer services, focused on providing fixed line telecommunications to corporate customers, small- and medium-sized businesses and the public sector. The Business Segment is also responsible for the wholesale business.
Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. Support Functions is included in segment information as a voluntary disclosure since it does meet the criteria for an operating segment.

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

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

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

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFOMRATION (CONTINUED)

Residential and Business segments

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

Year ended 31 December 2016	Residential	Business	Support functions	Total
Service revenue	256,653	195,392	-	452,045
Usage related direct costs	(152,035)	(109,234)	-	(261,269)
Contribution margin	104,618	86,158	-	190,776
Non-usage related direct costs	(31,727)	(9,092)	(46,157)	(86,976)
Other income	-	-	2,242	2,242
Other operating expenses	-	-	(724)	(724)
Depreciation, amortization and impairment of non-current assets	-	-	(68,970)	(68,970)
Operating profit	**72,891**	**77,066**	**(113,609)**	**36,348**

Year ended 31 December 2015	Residential	Business	Support functions	Total
Service revenue	256,302	179,215	-	435,517
Usage related direct costs	(148,486)	(96,838)	-	(245,324)
Contribution margin	107,816	82,377	-	190,193
Non-usage related direct costs	(32,093)	(10,473)	(46,170)	(88,736)
Other income	-	-	2,186	2,186
Other operating expenses	-	-	(1,282)	(1,282)
Depreciation, amortization and impairment of non-current assets	-	-	(63,739)	(63,739)
Operating profit	**75,723**	**71,904**	**(109,005)**	**38,622**

(All amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

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

Year ended 31 December 2016	Residential	Business	Support functions	Total
Service revenue	256,653	195,392	-	452,045
Usage related direct costs	(153,218)	(109,559)	-	(262,777)
Contribution margin	103,435	85,833	-	189,268
Non-usage related direct costs	(31,746)	(9,099)	(46,064)	(86,909)
Other income	-	-	2,138	2,138
Other operating expenses			(698)	(698)
Depreciation, amortization and impairment of non-current assets			(67,457)	(67,457)
Operating profit	**71,689**	**76,734**	**(112,081)**	**36,342**

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	(32,044)	(10,453)	(46,193)	(88,690)
Other income	-	-	2,067	2,067
Other operating expenses	-	-	(1,150)	(1,150)
Depreciation, amortization and impairment of non-current assets	-	-	(62,981)	(62,981)
Operating profit	**74,564**	**71,623**	**(108,257)**	**37,930**

(All amounts are expressed in thousands of kunas)

4 SEGMENT INFORMATION (CONTINUED)

Revenue by geographical area

	Group		Company	
	2016	**2015**	**2016**	**2015**
Republic of Croatia	362,633	365,365	362,633	365,363
Rest of world	89,412	70,152	89,412	70,152
	452,045	**435,517**	**452,045**	**435,515**

5. OTHER OPERATING INCOME

	Group		Company	
	2016	**2015**	**2016**	**2015**
Income from penalties charged	1,839	1,578	1,839	1,578
Other income	403	608	299	489
	2,242	**2,186**	**2,138**	**2,067**

6. OTHER SERVICE EXPENSES

	Group		Company	
	2016	**2015**	**2016**	**2015**
Telecommunication service costs	51,507	51,333	51,507	51,334
Invoicing expenses	3,469	3,893	3,469	3,893
Cleaning services	359	476	359	476
Intellectual services	2,548	991	2,463	962
Postal services	912	942	909	937
Bank services	582	593	575	585
Other service expenses	4,379	4,460	4,340	4,407
	63,756	**62,688**	**63,622**	**62,594**

(All amounts are expressed in thousands of kunas)

7. STAFF COSTS

	Group		Company	
	2016	**2015**	**2016**	**2015**
Net salaries	27,992	29,104	27,992	29,016
Taxes and contributions	20,499	20,997	20,499	20,863
Redundancy expenses	891	4,029	891	3,602
Long-term employee benefits	(404)	(1,861)	(404)	(1,258)
Reimbursement of costs to employees	1,941	3,188	1,941	3,181
	50,919	**55,457**	**50,919**	**55,404**
Number of staff at 31 December	321	347	321	347

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, Christmas bonus, various supports, and similar. Taxes and contributions at the Company and the Group included HRK 8,223 thousand (2015: HRK 8,981 thousand) of pension contributions paid to the mandatory state pension fund. Contributions are calculated as a percentage of the employees' gross salaries.

8. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

	Group		Company	
	2016	**2015**	**2016**	**2015**
Depreciation	44,545	41,695	43,032	40,937
Amortisation	24,425	22,044	24,425	22,044
	68,970	**63,739**	**67,457**	**62,981**

9. IMPAIRMENT CHARGE OF NON-CURRENT AND CURRENT RECEIVABLES

	Group		Company	
	2016	**2015**	**2016**	**2015**
Impairment charge on current and non-current receivables	2,440	2,313	2,440	2,313
Write-off of current and non-current receivables	4,501	3,627	4,501	3,627
Collection of current and non-current receivables	(3,984)	(3,287)	(3,984)	(3,287)
	2,957	**2,653**	**2,957**	**2,653**

(All amounts are expressed in thousands of kunas)

10. OTHER OPERATING EXPENSES

	Group		Company	
	2016	**2015**	**2016**	**2015**
Maintenance costs	11,100	13,905	11,100	13,898
Marketing services	6,785	6,161	6,785	6,162
Rent	5,880	5,937	6,103	6,181
External labour costs	9,717	5,610	9,717	5,610
Insurance premiums	941	1,192	939	1,151
Taxes and contributions independent of the results	951	939	888	916
Entertainment	399	263	399	258
Sponsorships	523	166	523	166
Other operating expenses	758	1,287	710	1,150
	37,054	**35,460**	**37,164**	**35,492**

11. FINANCIAL INCOME

	Group		Company	
	2016	**2015**	**2016**	**2015**
Written-off financial liabilities	-	674	-	674
Foreign exchange gains	2,313	940	2,363	658
Collection of value adjusted loan receivables	165	-	1,060	-
Other financial income	442	293	442	702
	2,920	**1,907**	**3,865**	**2,034**

12. FINANCIAL EXPENSES

	Group		Company	
	2016	**2015**	**2016**	**2015**
Interest expenses	25,451	27,416	25,451	27,242
Value adjustment of financial assets	-	-	-	254
Exchange losses	-	297	-	31
Other financial expenses	-	57	-	214
	25,451	**27,770**	**25,451**	**27,741**

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

(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 in Croatia 20 % till 31 December 2016 (in Slovenia it is 17 %). The reduction of Croatia's income tax rate from 20% to 18% will be effective from 1 January 2017. Optima Telekom d.d. had no corporate income tax liability for 2016 because of the losses carried forward.

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

	Group		Company	
	2016	**2015**	**2016**	**2015**
Accounting profit before taxation	**13,817**	**12,759**	**14,756**	**12,223**
Theoretical income tax at 20%	2,763	2,552	2,951	2,445
Effect of expenses not deductible for tax purposes	1,833	305	1,809	302
Effect of non-taxable income	(212)	-	(212)	-
Effect of utilised loss from previous periods for which DTA was not recongised	(4,384)	(2,774)	(4,548)	(2,747)
Income tax charge	**-**	**83**	**-**	**-**
Effective tax rate	0%	0,65%	0%	0%

Tax losses available for carry forward are presented below:

Year incurred	**Amount**	**Year of expiry**
2012	48,201	2017
2013	31,828	2018
	80,029	

Deferred tax assets of HRK 14,405 thousand has not been recognised in these consolidated financial statements with respect to the tax losses available for carry forward because their availability for utilisation and future taxable profits are not certain.

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

(All amounts are expressed in thousands of kunas)

14. INTANGIBLE ASSETS

Group	Concessions and rights	Software	Assets under development	Total intangible assets
COST				
At 1 January 2015	**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**
Additions	12,930	2,928	5,456	21,314
Transfer from assets under development	99	5,357	(5,456)	-
Disposals and retirements	(51,187)	87	-	(51,100)
At 31 December 2016	**53,286**	**101,658**	**-**	**154,944**
ACCUMULATED AMORTISATION				
At 1 January 2015	**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**
Charge for the year	20,081	4,344	-	24,425
Disposals and retirements	(51,187)	87	-	(51,100)
At 31 December 2016	**30,051**	**82,783**	**-**	**112,834**
NET BOOK VALUE				
At 31 December 2015	**30,287**	**14,934**	**-**	**45,221**
At 31 December 2016	**23,235**	**18,875**	**-**	**42,110**

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

(All amounts are expressed in thousands of kunas)

14 INTANGIBLE ASSETS (continued)

Company	Concessions and rights	Software	Assets under development	Total intangible assets
COST				
At 1 January 2015	**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**
Additions	12,930	2,928	5,456	21,314
Transfer from assets under development	99	5,357	(5,456)	-
Disposals and retirements	(51,187)	87	-	(51,100)
At 31 December 2016	**53,286**	**101,658**	**-**	**154,944**
ACCUMULATED AMORTISATION				
At 1 January 2015	**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**
Charge for the year	20,081	4,344	**-**	24,425
Disposals and retirements	(51,187)	87	**-**	(51,100)
At 31 December 2016	**30,051**	**82,783**	**-**	**112,834**
NET BOOK VALUE				
At 31 December 2015	**30,287**	**14,934**	**-**	**45,221**
At 31 December 2016	**23,235**	**18,875**	**-**	**42,110**

(All amounts are expressed in thousands of kunas)

15. PROPERTY, PLANT AND EQUIPMENT

Group	Land and builidings	Plant and equipment	Vechicles	Works of art	Assets under development	Leasehold improvements	Total tangible assets
COST							
At 1 January 2015	**19,730**	**635,340**	**903**	**46**	**6,329**	**4,815**	**667,163**
Additions	-	2,948	99	-	27,857	14	30,918
Transfer from assets under development	-	19,732	-	-	(19,732)	-	-
Disposals	(8)	(1,269)	(129)	-	-	(96)	(1,502)
At 31 December 2015	**19,722**	**656,751**	**873**	**46**	**14,454**	**4,733**	**696,579**
Additions	-	4,098	-	-	24,548	-	28,646
Transfer from assets under development	-	34,534	-	-	(34,537)	3	-
Disposals	(1,279)	(10,152)	(34)	-	-	-	(11,465)
At 31 December 2016	**18,443**	**685,231**	**839**	**46**	**4,465**	**4,736**	**713,760**
ACCUMULATED DEPRECIATION							
At 1 January 2015	**5,707**	**338,610**	**153**	**-**	**-**	**4,252**	**348,722**
Charge for the year	469	40,867	165	-	-	194	41,695
Disposals	(2)	(1,316)	(32)	-	-	(72)	(1,422)
At 31 December 2015	**6,174**	**378,161**	**286**	**-**	**-**	**4,374**	**388,995**
Charge for the year	468	43,769	146	-	-	162	44,545
Disposals	(1,261)	(9,136)	(15)	-	-	-	(10,412)
At 31 December 2016	**5,381**	**412,794**	**417**	**-**	**-**	**4,536**	**423,128**
NET BOOK VALUE							
At 31 December 2015	**13,548**	**278,590**	**587**	**46**	**14,454**	**359**	**307,584**
At 31 December 2016	**13,062**	**272,437**	**422**	**46**	**4,465**	**200**	**290,632**

As of 31 December 2016, the net book value of property, plant and equipment given as collateral amounted to HRK 119,688 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)

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Land and builidings	Plant and equipment	Vechicles	Works of art	Assets under development	Leasehold improvements	Total tangible assets
COST							
At 1 January 2015	**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**
Additions	-	4,098	39	-	24,548	-	28,685
Transfer from assets under development	-	34,784	(250)	-	(34,537)	3	-
Disposals	-	(11,775)	-	-	-	-	(11,775)
At 31 December 2016	**11,551**	**677,469**	**719**	**47**	**4,465**	**4,734**	**698,985**
ACCUMULATED DEPRECIATION							
At 1 January 2015	**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**
Charge for the year	288	42,440	142	-	-	162	43,032
Disposals	-	(10,798)	-	-	-	-	(10,798)
At 31 December 2016	**2,722**	**407,440**	**350**	**-**	**-**	**4,536**	**415,048**
NET BOOK VALUE							
At 31 December 2015	**9,117**	**274,564**	**722**	**47**	**14,454**	**357**	**299,261**
At 31 December 2016	**8,829**	**270,029**	**369**	**47**	**4,465**	**198**	**283,937**

(All amounts are expressed in thousands of kunas)

16. NON-CURRENT AND CURRENT LOANS

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Loans granted to subsidiaries	-	-	1,555	2,338
Loans to companies /i/	396	37,576	396	37,576
Impairment of loans	-	(37,264)	(1,555)	(39,487)
Non-current loans	**396**	**312**	**396**	**427**
Loans to individuals /ii/	10,772	10,767	10,772	10,763
Loans granted to subsidiaries /iii/	-	-	5,062	5,468
Current loans	**10,772**	**10,767**	**15,834**	**16,231**
Total given loans	**11,168**	**11,079**	**16,230**	**16,658**

/i/ Loan receivables (including related interest) from OPTIMA OSN-Inženjering d.o.o. were fully provided against in previous periods. In 2016, the relevant Commercial Court erased OPTIMA OSN-Inženjering d.o.o. from the Court Registry effective on 21 June 2016, and as a result, the Company wrote-off the related receivables from its records.

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

/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. The Company has recorded the loan at an discounted amount using an implied interest rate.

(All amounts are expressed in thousands of kunas)

17. INVESTMENTS IN SUBSIDIARIES

The net book value of investments in subsidiaries comprises:

	31 December 2016	31 December 2015
Optima Direct d.o.o. Croatia /i/		-
Optima Telekom d.o.o. Slovenia /ii/	66	67
Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o. /iii/	20	20
	86	**87**

/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

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Domestic trade receivables	93,469	90,908	93,416	89,892
Foreign trade receivables	3,919	4,869	3,919	5,290
Impairment allowance on trade receivables	(28,469)	(29,791)	(28,437)	(28,793)
Total receivables, net	**68,919**	**65,986**	**68,898**	**66,389**
Receivables from state and other institutions	190	333	112	181
Advances for services and inventories	898	760	898	733
Other receivables	492	329	409	-
	70,499	**67,408**	**70,317**	**67,303**

As at 31 December 2016 the Company deemed impaired and fully provided for trade receivables with a nominal value of HRK 28,437 thousand (31 December 2015: HRK 28,793 thousand), the Group fully provided for trade receivables with a nominal value of HRK 28,469 thousand (31 December 2015: HRK 29,791 thousand).

Movements in the impairment allowance on trade receivables:

	Group		Company	
	2016	**2015**	**2016**	**2015**
At 1 January	29,791	29,820	28,793	28,821
Writte-off during the year	(1,140)	(234)	(173)	(235)
Amounts collected during the year	(2,662)	(2,107)	(2,663)	(2,106)
Additional provisions	2,480	2,312	2,480	2,313
As at 31 December	**28,469**	**29,791**	**28,437**	**28,793**

Age analysis of the receivables:

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Neither past due nor impaired	35,545	39,345	35,534	39,345
Past due but not impaired				
- Up to 120 days	22,478	21,760	22,468	21,651
- 120 to 360 days	6,534	4,340	6,534	4,830
- Over 360 days	4,362	541	4,362	563
Total	**68,919**	**65,986**	**68,898**	**66,389**

(All amounts are expressed in thousands of kunas)

19. DEPOSITS

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Non-current guarantee deposits /i/	3,563	3,598	3,563	3,598
	3,563	**3,598**	**3,563**	**3,598**
Current guarantee deposits	24	88	24	92
	24	**88**	**24**	**92**
Total deposits	**3,587**	**3,686**	**3,587**	**3,690**

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

20. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Prepaid lease expenses (IRU arrangements)	8,500	9,500	8,500	9,500
Non-current prepaid expenses	**8,500**	**9,500**	**8,500**	**9,500**
Prepaid service expenses	913	1,586	910	1,583
Prepaid lease expenses (IRU arrangements)	1,000	1,000	1,000	1,000
Current prepaid expenses	**1,913**	**2,586**	**1,910**	**2,583**
	10,413	**12,086**	**10,410**	**12,083**

21. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Bank balances	5,326	20,341	5,219	20,298
Foreign currency account balance	4,340	67	4,339	61
Cash in hand	4	10	4	10
Cash and cash equivalents	**9,670**	**20,418**	**9,562**	**20,369**

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 635,569,300.00, 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 2016 the balance of MCL amounts to HRK 24,677 thousand. The Company has the right, but not the obligation to pay the principal annually.

Earnings per share:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Profit for the year attributable to ordinary equity holders of the Company in HRK thousand	13,817	12,676	14,756	12,223
Weitghted average number of ordinary shares for basic earnings per share	63,556,808	63,556,808	63,556,808	63,556,808
Profit per share	**0.22**	**0.20**	**0.23**	**0.19**

(All amounts are expressed in thousands of kunas)

22. ISSUED SHARE CAPITAL (continued)

Shareholders at 31 December were as follows:

Shareholder	**2016.**	
	(in HRK'000)	**%**
ZAGREBAČKA BANKA D.D.	256,259	40,32
HT D.D.	120,902	19,02
HANŽEKOVIĆ MARIJAN	25,668	4,04
RAIFFEISENBANK AUSTRIA D.D.	21,246	3,34
ADDIKO BANK D.D.	17,665	2,78
MARTIĆ MATIJA	15,000	2,36
VIPNET D.O.O.	10,854	1,71
RAIFFEISENBANK AUSTRIA D.D.	8,842	1,39
HRVATSKA POŠTANSKA BANKA D.D.	8,109	1,28
HRVATSKA POŠTANSKA BANKA D.D.	7,373	1,16
OTP BANKA D.D.	7,019	1,10
ALLIANZ ZAGREB D.D.	5,677	0,89
ADDIKO 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.	5,013	0,79
ODAŠILJAČI I VEZE D.O.O.	4,841	0,76
ZAGREBAČKA BANKA D.D.	4,837	0,76
RAIFFEISENBANK AUSTRIA D.D.	4,137	0,65
TRIGLAV OSIGURANJE	4,055	0,64
	544,325	**85,63**
Other shareholders	**91,243**	**14,37**
	635,568	**100,00**

(All amounts are expressed in thousands of kunas)

23. LONG-TERM AND SHORT TERM BORROWINGS

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Amounts due to banks	197,996	206,701	197,996	206,701
Financial lease obligations	2,220	2,602	2,220	2,602
Long-term portion	**200,216**	**209,303**	**200,216**	**209,303**
Amounts due to banks	8,323	-	8,323	-
Financial lease obligations	351	434	351	434
Short term portion	**8,674**	**434**	**8,674**	**434**
Total received loans and borrowings	**208,890**	**209,737**	**208,890**	**209,737**

The largest portion in the undiscounted amount of HRK 226,959 thousand as of 31 December 2016 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.

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
EUR	205,443	206,300	205,443	206,300
HRK	3,447	3,437	3,447	3,437
Long-term loans and borrowings	**208,890**	**209,737**	**208,890**	**209,737**

The weighted average interest rate on received short-term and long-term loans and borrowings is 4.53 % (2015: 4,54%).
Set out below are the debt balances analysed by type of interest, with the variable rate representing 3M EURIBOR.

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Variable rate	3,528	2,907	3,528	2,907
Fixed rate	205,362	206,830	205,362	206,830
Received loans and borrowings	**208,890**	**209,737**	**208,890**	**209,737**

(All amounts are expressed in thousands of kunas)

24. ISSUED BONDS

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Nominal amount – long term	67,500	75,000	67,500	75,000
Discount	(2,903)	(3,915)	(2,903)	(3,915)
	64,597	**71,085**	**64,597**	**71,085**
Nominal amount – short term	7,500	-	7,500	-
Discount	(773)	-	(773)	
Accrued interest – short term	333	-	333	-
	7,060	**-**	**7,060**	**-**
	71,657	**71,085**	**71,657**	**71,085**

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 AND OTHER PAYABLES

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Long-term liabilities to content providers	2,226	10,155	2,226	10,155
Non-current	**2,226**	**10,155**	**2,226**	**10,155**
Domestic trade payables	49,874	40,430	49,907	40,430
Foreign trade payables	1,868	4,882	1,865	4,879
Obligations to suppliers under the Pre-bankruptcy Settlement Arrangement	-	29,412	-	29,412
Short term liabilities to content providers	16,514	13,971	16,514	13,971
Current	**68,256**	**88,695**	**68,286**	**88,692**
Total trade payables	**70,482**	**98,850**	**70,512**	**98,847**

26. OTHER CURRENT LIABILITIES

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
VAT payable	3,221	1,147	3,214	1,143
Net salaries	3,307	3,181	3,307	3,181
Taxes and contributions on salaries	1,554	1,685	1,554	1,685
Other liabilities	1,040	3	1,040	2
	9,122	**6,016**	**9,115**	**6,011**

27. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Company	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Deferred equipment rental income	19,595	21,835	19,595	21,835
Total long-term	**19,595**	**21,835**	**19,595**	**21,835**
Deferred equipment rental income	2,415	2,404	2,415	2,404
Accrued expenses - domestic supplier accruals	9,514	9,368	9,514	9,368
Accrued expenses - foreign supplier accruals	521	4,721	521	4,721
Total short-term	**12,450**	**16,493**	**12,450**	**16,493**
	32,045	**38,328**	**32,045**	**38,328**

(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 2016 amounts to HRK 158 thousand. No loans were provided to the Supervisory Board members. The total remuneration paid to the Management Board members in 2016 amounts to HRK 3,196 thousand

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

The main transactions with related parties during 2016 and 2015 were as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Income				
Hrvatski telekom d.d.	10,066	9,309	10,066	9.309
Iskon internet d.d.	1,012	1,488	1,012	1.488
Combis d.o.o.	37	36	37	36
Optima telekom d.o.o. Koper, Slovenija	-	-	221	411
Zagrebačka banka d.d.	3,963	156	3,963	156
Expenses				
Hrvatski telekom d.d.	140,209	130,454	140,209	130.454
Iskon internet d.d.	872	561	872	561
Combis d.o.o.	2,351	254	2,351	254
Optima telekom d.o.o. Koper, Slovenia	-	-	1,515	1.530
Optima direct d.o.o.	-	-	311	388
Zagrebačka banka d.d.	10,705	10,815	10,705	10.815
Capital expenditure				
Hrvatski telekom d.d.	441	-	441	-
Combis d.o.o.	3,673	928	3,673	*928*
Receivables				
Hrvatski telekom d.d.	1,855	1,341	1,855	1.341
Iskon internet d.d.	197	155	197	155
Combis d.o.o.	8	8	8	8
Optima telekom d.o.o. Koper, Slovenija	-	-	1,555	2.758
Optima direct d.o.o.	-	-	5,063	5.468
Zagrebačka banka d.d./i/	12,363	20,617	12,363	20.617
Liabilities				
Hrvatski telekom d.d.	48,147	33,915	48,147	33.915
Iskon internet d.d.	222	-	222	-
Combis d.o.o.	573	1,202	573	1.202
Optima Direct d.o.o.	-	-	33	-
Zagrebačka banka d.d. /ii/	251,647	278,448	251,647	278.448

/i/ Cash on bank account

/ii/ Liabilities includes MCL which is classified as equity

(All amounts are expressed in thousands of kunas)

29. COMMITMENTS

a) *Operating lease commitments*

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

Operating lease charges:

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current year expense	30,222	31,507	31,953	33,273
	30,222	**31,507**	**31,953**	**33,273**

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

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Within one year	19,825	16,610	19,825	16,610
Between 1 and 5 years	30,667	37,104	30,667	37,104
Greater than 5 years	7,604	7,849	7,604	7,849
	58,096	**61,563**	**58,096**	**61,563**

The contracts relate primarily to property leases and car leases.

b) *Capital commitments*

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

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Property, plant and equipment	12,382	8,844	12,382	8,844
	12,382	**8,844**	**12,382**	**8,844**

29. COMMITMENTS

c) Other commitments

The Company entered into a Acquisition Agreement with H1 TELEKOM d.d. (H1), an electronic communications operator, on 29 July 2016. Pursuant to the said Agreement, after obtaining the required approvals and consents, H1 as the acquired company will become part of Optima as the acquiring company, with all of its assets, rights and obligations transferred to Optima, without conducting the liquidation of the acquired company. As consideration for the transfer of all assets, rights and obligations of H1, Optima shall transfer Optima shares to H1 shareholders in the appropriate ratio. The purpose of the acquisition is to achieve positive synergies between the companies and the increase Optima's value for the existing and new shareholders (the former shareholders of H1).

The Company held an extraordinary General Meeting on 25th January 2017 and accepted all the proposed decisions on the approval of the Merger agreement and the decisions needed to enter merger into the court register of the competent Court Registers. All proposed General Meeting decisions will obtain legal effect upon AZTN’s positive decision on the clearance of the concentration between the Company and H1, as well as a positive decision regarding the motion filled by Hrvatski telekom d.d. to prolong the conditionally approved concentration between HT and OT for an additional period of three years.

(All amounts are expressed in thousands of kunas)

30. FINANCIAL INSTRUMENTS

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

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

Categories of financial instruments

	Group		Company	
	2016	**2015**	**2016**	**2015**
Financial assets				
Non-current and current loans and deposits	14,731	14,677	19,793	20,256
Cash and cash equivalents	9,670	20,418	9,562	20,369
Trade receivables	70,499	67,408	70,317	67,303
	94,900	**102,503**	**99,672**	**107,928**
Financial liabilities at amortised cost				
Issued bonds	71,657	71,085	71,657	71,085
Borrowings	208,890	209,737	208,890	209,737
Trade payables	68,256	88,695	68,286	88,692
	348,803	**369,517**	**348,833**	**369,514**

(All amounts are expressed in thousands of kunas)

31. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES

31.1. Foreign currency risk management

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

	2016	2015	2016	2015
	Liabilities		Assets	
EUR	229,442	249,125	20,842	13,485
USD	355	388	-	-
	229,797	**249,513**	**20,842**	**13,485**

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.

	2016	2015	2016	2015
	Liabilities		Assets	
EUR	229,442	249,125	20,842	13,485
USD	355	388	-	-
	229,797	**249,513**	**20,842**	**13,485**

Foreign currency sensitivity analysis

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

The following table details the Company's and the Group's sensitivity to a 10-percent change of the Croatian kuna in 2016 against the relevant currencies (2015: 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.

Group	2016	2015	2016	2015
	Liabilities		Assets	
EUR	22,944	24,913	2,084	1,349
USD	36	39	-	-
	22,980	**24,952**	**2084**	**1,349**

Company	2016	2015	2016	2015
	Liabilities		Assets	
EUR	22,944	24,913	2,084	1,349
USD	36	39	-	-
	22,980	**24,952**	**2084**	**1,349**

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).

31. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

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

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

31.3. Other price risks

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

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

The Company and the Group does not guarantee obligations of other parties.

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

Additionally, the Company and the Group is exposed to risk through cash deposits in the banks. At 31 December 2016, the Group and the Company had business transactions with 14 banks (2015: 14 banks). The Company and the Group held cash in five banks almost exclusively. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership at the domestic and foreign markets and on contacts with the banks on a daily basis.

(All amounts are expressed in thousands of kunas)

31. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

31.4. Credit risk (continued)

The banks have no credit rating, however, their parent banks have credit ratings by Standard & Poor's as presented below.

	Group		Company	
	2016	**2015**	**2016**	**2015**
BB	8,498	16,819	8,498	16,791
BBB	245	2,050	245	2,050
BBB-	201	301	201	301
Other	160	2	53	2
No rating	562	1,236	561	1,215
	9,666	**20,408**	**9,558**	**20,359**

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

	Group		Company	
	2016	**2015**	**2016**	**2015**
Residential	26,996	26,946	26,996	26,946
Wholesale	608	4,358	608	4,358
Key Accounts (KA)	3,034	2,892	3,034	2,892
Small and medium Enterprises (SME)	2,528	2,675	2,528	2,675
Small office / Home office (SOHO)	2,245	2,375	2,245	2,375
Other	134	99	123	99
	35,545	**39,345**	**35,534**	**39,345**

(All amounts are expressed in thousands of kunas)

31. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

31.5. 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 and the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and payables.

Liquidity and interest rate risk tables

The following tables detail the Company's and the Group's remaining contractual maturities for its liabilities at the end of the period.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group & Company	Average interest rate	**Less than 3 months**	**3 - 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
2016						
Non-interest bearing		73,371	16,503	12,558	9,933	112,365
Interest bearing	4,53%	4,601	31,271	190,072	159,438	385,382
		77,972	**47,774**	**202,630**	**169,371**	**497,747**
2015						
Non-interest bearing		69,243	48,443	23,202	12,225	153,113
Interest bearing	4,54%	3,944	11,837	178,729	204,354	398,864
		73,187	**60,280**	**201,931**	**216,579**	**551,977**

Non-interest bearing liabilities of the Company due in a period of up to one year consist mainly of trade payables (including content providers) in the amount of HRK 76,048 thousand in 2016 (2015: HRK 82,569 thousand).

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

(All amounts are expressed in thousands of kunas)

31. FINANCIAL RISK MANAGEMENT OBJECITVES AND POLICIES (CONTINUED)

31.6. 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 interest rate.

The estimated fair value of the bonds in the amount of HRK 48,750 thousand at 31 December 2016 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 2016, although during the year there were no significant transactions with these bonds.

31.7. Offsetting

Following financial assets and liabilities of the Group and Company are subject to off-setting

	Group		Company	
	2016	**2015**	**2016**	**2015**
Financial assets				
Gross recognised amounts	80,046	71,140	79,864	71,035
Offsetting amount	(9,547)	(3,732)	(9,547)	(3,732)
	70,499	**67,408**	**70,317**	**67,303**
Financial liabilities				
Gross recognised amounts	90,253	108,920	90,283	108,917
Offsetting amount	(9,547)	(3,732)	(9,547)	(3,732)
	80,706	**105,188**	**80,736**	**105,185**

32. AUDITOR'S FEES

The auditors of the Company's and the Group's financial statements have rendered services of HRK 1,237 thousand in 2016 (2015: HRK 956 thousand). Services rendered in 2016 and 2015 mainly relate to audits of the financial statements and trustee for pre-banckruptcy purposes.

33. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2016 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 and the Group's affairs to require disclosure in the financial statements.