Croatian Telecom Inc.

Consolidated financial statements

31 December 2015

Contents

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") give a true and fair view of the financial position and results of Croatian Telecom Inc. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 9 February 2016.

Croatian Telecom Inc.
Roberta Frangeša Mihanovića 9
10000 Zagreb
Republic of Croatia

9 February 2016

On behalf of the Group,

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb

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

Independent Auditor's Report

To the Shareholders and Management Board of Hrvatski Telekom d.d.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 9 February 2016

pwc
PricewaterhouseCoopers d.o.o.
za reviziju i konzalting
Zagreb, Ulica kneza Lj. Posavskog 31

John M. Gasparac
Member of the Management Board

Tamara Maćašović
Certified auditor

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T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Consolidated statement of comprehensive income
For the year ended 31 December 2015

	Notes	2015 HRK millions	2014 HRK millions Restated
Revenue	4	6,919	6,908
Other operating income	4	98	124
Merchandise, material and energy expenses	5	(1,272)	(1,165)
Service expenses	6	(710)	(782)
Employee benefits expenses	8	(1,023)	(1,128)
Work performed by the Group and capitalised		88	90
Depreciation, amortization and impairment of non-current assets	7	(1,492)	(1,415)
Other expenses	9	(1,409)	(1,407)
Operating profit	4	**1,199**	**1,225**
Finance income		53	36
Finance costs		(88)	(90)
Finance costs – net		(35)	(54)
Share of profit of investments accounted for using the equity method	15	4	14
Profit before income tax		**1,168**	**1,185**
Income tax expense	10	(227)	(47)
Profit for the year		**941**	**1,138**
Other comprehensive income for the year			
Items that will not be reclassified to comprehensive income			
Remeasurement of post employment benefit obligations		-	1
Items that may be subsequently reclassified to comprehensive income			
Change in value of available for sale financial assets		2	3
Other comprehensive income for the year, net of tax		**2**	**4**
Total comprehensive income for the year, net of tax		**943**	**1,142**

Consolidated statement of comprehensive income (continued)

For the year ended 31 December 2015

	Notes	2015 HRK millions	2014 HRK millions Restated
Profit attributable to:			
Owners of the Company		925	1,143
Non-controlling interest		16	(5)
		941	1,138
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		927	1,147
Non-controlling interest		16	(5)
		943	1,142
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	11	HRK 11.30	HRK 13.95

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position
As at 31 December 2015

	Notes	31 December 2015 HRK millions	31 December 2014 HRK millions	1 January 2014 HRK millions
ASSETS			Restated	Restated
Non-current assets				
Intangible assets	12	1,651	1,722	1,365
Property, plant and equipment	13	5,558	5,521	5,516
Investment property	14	57	56	54
Investments accounted for using the equity method	15	399	395	398
Available-for-sale financial assets	16	591	289	196
Trade and other receivables	18	98	121	126
Bank deposits	19	43	51	21
Deferred income tax asset	10	46	51	60
Total non-current assets		**8,443**	**8,206**	**7,736**
Current assets				
Inventories	17	105	115	115
Trade and other receivables	18	1,219	1,240	1,251
Prepayments		272	264	149
Income tax prepayments		7	286	206
Available-for-sale financial assets	16	78	338	384
Bank deposits	19	780	1,200	947
Cash and cash equivalents	19	3,175	2,192	2,039
Total current assets		**5,636**	**5,635**	**5,091**
TOTAL ASSETS		**14,079**	**13,841**	**12,827**

Consolidated statement of financial position (continued)
As at 31 December 2015

	Notes	31 December 2015 HRK millions	31 December 2014 HRK millions	1 January 2014 HRK millions
EQUITY AND LIABILITIES			Restated	Restated
Issued capital and reserves				
Issued share capital	24	9,823	8,883	8,189
Legal reserves	25	444	409	409
Fair value reserves		4	2	(1)
Retained earnings	26	1,193	1,816	2,103
Total		**11,464**	**11,110**	**10,700**
Non-controlling interest		177	166	-
Total issued capital and reserves		**11,641**	**11,276**	**10,700**
Non-current liabilities				
Provisions for other liabilities and charges	23	56	62	62
Borrowings	32	279	305	-
Employee benefit obligations	22	12	9	70
Deferred income	21	2	26	4
Other liabilities	20	151	195	143
Finance lease	32	11	7	-
Deferred income tax liability	10	45	50	2
Total non-current liabilities		**556**	**654**	**281**
Current liabilities				
Trade payables and other liabilities	20	1,693	1,671	1,668
Provisions for other liabilities and charges	23	82	123	53
Finance lease	32	4	3	-
Deferred income	21	103	111	120
Borrowings	32	-	3	5
Total current liabilities		**1,882**	**1,911**	**1,846**
Total liabilities		**2,438**	**2,565**	**2,127**
TOTAL EQUITY AND LIABILITIES		**14,079**	**13,841**	**12,827**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

Signed on behalf of the Group on 9 February 2016:

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

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb CEO

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

Consolidated statement of cash flows
For the year ended 31 December 2015

	Notes	2015 HRK millions	2014 HRK millions
			Restated
Operating activities			
Profit before income tax		1,168	1,185
Depreciation, amortization and impairment of non-current assets	7	1,492	1,415
Interest income		(16)	(15)
Interest expense		50	59
Gain on disposal of assets		(11)	(3)
Share of profit of joint venture	15	(4)	(14)
Decrease in inventories		11	1
Decrease / (increase) in receivables and prepayments		18	(79)
Increase in payables and accruals		13	177
Increase / (decrease) in employee benefit obligations	22	1	(62)
(Decrease) / increase in provisions		(44)	35
Other non-cash items		12	3
Cash generated from operations		2,690	2,702
Interest paid		(64)	(50)
Income tax paid		(260)	(359)
Net cash flows from operating activities		**2,366**	**2,293**
Investing activities			
Payments for non current assets		(990)	(939)
Proceeds from sale of non-current assets		25	13
Purchase of available-for-sale financial assets and deposits		(616)	(1,114)
Proceeds from sale of available-for-sale financial assets and deposits		974	1,031
Purchase of secured deposits (reverse REPO arrangements)	19	(1,407)	(798)
Proceeds from secured deposits (reverse REPO arrangements)	19	1,438	550
Interest received		18	16
Dividend received	15	-	17
Acquisition of a subsidiary, net of cash acquired	3	-	7
Net cash flows used in investing activities		**(558)**	**(1,217)**
Financing activities			
Dividends paid	26	(573)	(737)
Repayment of radio frequency spectrum, content and ECI contracts		(212)	(154)
Other financial repayments		(34)	(16)
Repayment MCL		(8)	
Repayment of lease liability and borrowings	24	(4)	(22)
Net cash flows used in financing activities		**(831)**	**(929)**
Net increase in cash and cash equivalents		977	147
Cash and cash equivalents as at 1 January		2,192	2,039
Exchange gains on cash and cash equivalents		5	6
Cash and cash equivalents as at 31 December	19	**3,174**	**2,192**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Issued share capital	Legal reserves	Fair value reserves	Retained earnings	Total	Non-Controlling interest	Total equity
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
	(Note 24)	(Note 25)		(Note 26)			
Balance as at 1 January 2014	8,189	409	(1)	2,103	10,700	-	10,700
Profit for the year	-	-	-	1,143	1,143	(5)	1,138
Other comprehensive income for the year	-	-	3	1	4	-	4
Total comprehensive income for the year	-	-	3	1,144	1,147	(5)	1,142
Dividends paid to equity holders of the Company (Note 26)	-	-	-	(737)	(737)	-	(737)
Capital increase	694	-	-	(694)	-	-	-
Acquisition of subsidiary (Note 3)	-	-	-	-	-	171	171
Balance as at 31 December 2014	**8,883**	**409**	**2**	**1,816**	**11,110**	**166**	**11,276**
Profit for the year	-	-	-	925	925	16	941
Other comprehensive income for the year	-	-	2	-	2		2
Total comprehensive income for the year	-	-	2	925	927	16	943
Dividends paid to equity holders of the Company (Note 26)	-	-	-	(573)	(573)	-	(573)
Capital increase	940	35	-	(975)	-	-	-
Value of conversion rights of MCL	-	-	-	-	-	(8)	(8)
Increase of share capital based on pre-bankruptcy settlement agreement	-	-	-	-	-	3	3
Balance as at 31 December 2015	**9,823**	**444**	**4**	**1,193**	**11,464**	**177**	**11,641**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

1 Corporate information

Croatian Telecom Inc. ("HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom Europe B.V. with a 51% holding (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. Deutsche Telekom Europe Holding B.V is 100% owned by Deutsche Telekom AG). Thus, Deutsche Telekom AG is the ultimate controlling parent.

The registered office address of the Company is Roberta Frangeša Mihanovića 9, Zagreb, Croatia.

The total number of employees of the Group as at 31 December 2015 was 4,951 (31 December 2014: 5,340).

The principal activities of the Group are described in Note 4.

The consolidated financial statements for the financial year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Management Board on 9 February 2016. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. The consolidated financial statements also comply with the Croatian Accounting Act on consolidated financial statements, which refers to IFRS as endorsed by the EU.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets (Note 16), as disclosed in the accounting policies hereafter.

The Group's consolidated financial statements are presented in Croatian Kuna ("HRK") which is the Group's presentation currency. All amounts disclosed in the consolidated financial statements are presented in millions of HRK if not otherwise stated.

The consolidated financial statements include the financial statements of Croatian Telecom Inc. and the following subsidiaries comprise together HT Group:

		Ownership interest	
Entity	Country of Business	31 December 2015	31 December 2014
Combis d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%
E-tours d.o.o.	Republic of Croatia	100%	100%
Optima Telekom d.d.	Republic of Croatia	19.02%	19.11%

2.2. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated and disclosed.

(a) New and amended standards adopted by the Group

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

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

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

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. None of these standards and interpretations are expected to have significant effect on the Group's financial statements, except for the following standards:

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on 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. In December 2014, the International Accounting Standards Board (IASB) made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted (continued)

- *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.

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

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

2.2. Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted (continued)

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

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

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

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

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, during the reporting period or at the reporting date respectively. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as explained further in Notes 23 and 28. Changes in these judgments could have a significant impact on the financial statements of the Group.

Impairment of non-financial assets

The determination of impairment of assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of the business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for those products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results.

The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details including carrying values and effects on the result of the period are given in Notes 12 and 13.

2.3. Significant accounting judgments, estimates and assumptions (continued)

Useful lives of assets

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

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

	Increase / decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2015	+10	103
	-10	(107)
Year ended 31 December 2014	+10	100
	-10	(108)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 12). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the business and residential cash-generating units to materially exceed their recoverable amount. In case of cash-generating unit Optima Telekom, a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 10%, increase of costs by 10% or change in capex and revenue ratio) with all other variables held constant, could result in an impairment charge of up to HRK 90 million.

Intangible assets with an indefinite life

In arriving at the conclusion that the acquired brand has an indefinite life, the Group considered the fact that the brand represents a whole business segment and relates to an operator with proven and sustained demand for its products and services in a well-established market. The brand has historically been supported through spending on consumer marketing and promotion. The Group considered other factors such as the ability to continue to protect the legal rights that arise from the brand name indefinitely and the absence of any competitive factors that could limit the life of the brand name. The Group expects continued economic benefits from the acquired brand in the future. However, a strategic decision to withdraw marketing support from the brand or the weakening in the brand's appeal through changes in customer preferences might result in an impairment charge in the future. Also, reasonable change in certain key assumptions (such as change of revenues by 10% and change in royalty relief rate by 0.1%) could result in an impairment charge of up to HRK 9 million.

2.3. Significant accounting judgments, estimates and assumptions (continued)

Voluntary accounting policy change

In 2015, the Company voluntary changed its accounting policy in regards to fees related to the Electronic Communication Infrastructure (ECI) Rights of servitude and Rights of way. It determined that ECI contracts meet the criteria for capitalization as intangible assets, rather than being a lease due to the fact that the Company does not have the right to use the buildings or land where ECI is located, other than installing, maintaining & repairing the infrastructure. The Company previously treated some of these rights as operating leases and expensed the fees resulting from these contracts.

Under the new accounting policy, the intangible asset is initially recognised at cost. The cost is the amount of one-off fee paid at entering into the arrangement and any other fees which are considered to be unavoidable. The non-cancellable term of the contract is three years, as it is assumed that this payment is unavoidable due to the fact that there will be no significant changes in technology and topology in that time period, and the Company cannot change its routes or find other locations for ECI in a shorter time period. The judgment made by the management in determination the "non-cancellable" period is disclosed in the Note 2.3.

The Company believes that recognizing the fees related to the Electronic Communication Infrastructure (ECI) Rights of servitude and Rights of way as intangible assets results in better presentation of the financial position and provides more relevant information. The accounting treatment of these costs varies within the telecommunication industry, but the Company believes the current accounting policy is more relevant and it is aligned with policies followed by the parent company - Deutsche Telekom AG.

Correction of errors in prior period financial information

i. *Accounting for content contracts*

In previous periods, Optima Telekom (a subsidiary within the Group) did not discount the amount of long term liabilities and intangible assets arising from content contracts upon initial recognition.

ii. *Classification of Mandatory convertible loan (MCL)*

In 2015, a subsidiary - Optima Telekom undertook a detailed review of the MCL arrangement and discovered that the terms and conditions of this agreement had been misinterpreted. Optima has the option, but not a contractual obligation, to settle the MCL arrangement with cash payments and both parties have a conversion option to settle the loan in shares of Optima at the same fixed exercise price at any time over the contractual period of the loan; the conversion option is an equity instrument. The cash settlement option was concluded to be a non-substantive feature of the instrument as the conversion option will always be in-the –money for one of the parties of the agreement. As a consequence, the MCL had been incorrectly accounted for as non-current liability rather than as a component of equity. From the perspective of these consolidated financial statements, the instrument recognised initially at fair value, was transferred from liability to equity and is presented as the non-controlling interest (increase of NCI by HRK 41 million and decrease of the non-current liabilities by the same amount).

iii. *Classification of long-term trade payables*

In previous periods, Optima Telekom incorrectly classified certain re-programmed trade payable liabilities to suppliers as borrowings rather than long-term trade payables with extended payment terms.

2.3. Significant accounting judgments, estimates and assumptions (continued)

Financial information – restatement impact

The voluntary change in accounting policy has been accounted for retrospectively, as if the new accounting policy had always been applied. In addition, the Group restated the comparative amounts for each prior period presented for the errors in prior period financial information. The effects on the financial information are as follows:

- Statement of comprehensive income

Position	2014 As reported HRK millions	Change in accounting policy HRK millions	Correction of error - content HRK millions	Correction of error - MCL & payables HRK millions	2014 Restated HRK millions
Other expenses	(1,413)	6	-	-	(1,407)
Depreciation, amortization and impairment of non-current assets	(1,411)	(4)	-	-	(1,415)
Financial costs	(88)	(2)	-	-	(90)

There was no impact on earnings per share for 2014.

- Statement of financial position

Position	1 January 2014 As reported HRK millions	Change in accounting policy HRK millions	Correction of error - content HRK millions	Correction of error - MCL & payables HRK millions	1 January 2014 Restated HRK millions
Intangible assets	1,358	7	-	-	1,365
Other non-current Liabilities	138	5	-	-	143
Trade and other payables	1,666	2	-	-	1,668

Position	31 December 2014 As reported HRK millions	Change in accounting policy HRK millions	Correction of error - content HRK millions	Correction of error - MCL & payables HRK millions	31 December 2014 Restated HRK millions
Intangible assets	1,716	16	(10)	-	1,722
Other non-current liabilities	184	12	(28)	27	195
Trade and other payables	1,619	4	18	30	1,671
Borrowings (non-current)	380	-	-	(75)	305
Finance lease (non-current)	-	-	-	7	7
Non-controlling interest	125	-	-	41	166
Borrowings (current)	36	-	-	(33)	3
Finance lease (current)	-	-	.	3	3

2.3. Significant accounting judgments, estimates and assumptions (continued)

Financial information – restatement impact (continued)

- Statement of cash flows

Position	2014 As reported HRK millions	Impact on change HRK millions	2014 Restated HRK millions
Depreciation, amortization and impairment of non-current assets	1,411	4	1,415
Interest expenses	57	2	59
Repayment of content and ECI contracts	(164)	(6)	(170)

Reclassifications

In 2015, the Company has changed the presentation of certain positions within segment reporting. In order to reconcile the presentation of comparable period data with data presented in 2015, following positions in the financial statements for the year ended 31 December 2014 were reclassified:

- Segment reporting

Position	2014 As reported HRK millions	Impact on change HRK millions	2014 Restated HRK millions
Residential segment			
Service revenues	3,606	38	3,644
Other revenues	122	(38)	84
Business segment			
Service revenues	2,526	26	2,552
Other revenues	135	(26)	109

Stated changes were made in order to include dunning fees and penalty interest income within service revenues.

2.4. Summary of accounting policies

a) Operating profit

Operating profit is defined as the result before income taxes and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, treasury bills, interest bearing available-for-sale financial assets, share of profit and loss from associate and joint venture, interest expense on borrowings, gains and losses on the sale of available-for-sale financial assets and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

b) Business Combinations and Goodwill

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date that that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of acquire’s identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through the statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest in the acquire over the fair value of identifiable net assets acquired. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the statement of comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4. Summary of accounting policies (continued)

c) Investment in associate

In the Group's financial statements, investment in an associated company (generally a shareholding of between 20% and 50% of voting rights) where significant influence is exercised by the Group is accounted for using the equity method less any impairment in value. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. An assessment of investment in associate is performed when there is an indication that the asset has been impaired or that the impairment losses recognized in previous years no longer exist.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

d) Investment in joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as the parent company.

Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Interest in the joint venture is derecognized at the date on which the Group ceases to have joint control over the joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4. Summary of accounting policies (continued)

e) Intangible assets

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

Amortization of the telecommunication licence commences when the licence is acquired and ready for use, with the amortization period being the term of the licence.

The Group recognizes costs of content as an intangible asset at the inception of the related contract. The Group determined that the following conditions have to be met for capitalization of content provider contracts: contract duration must be longer than one year, cost must be determined or determinable, contracted rights must be continuous and costs under the contract are unavoidable. Assets recognized under these contracts will be amortized over the contract period. Content contracts which do not meet the criteria for capitalization are expensed and presented in ‘other expenses’ in the statement of comprehensive income.

The Company changed its accounting policy for rights of servitude and rights of way of electronic telecommunication infrastructure from operating expense to intangible assets due to satisfaction of capitalisation criteria for acquired rights at the moment of signing the contract for rights of servitude or receiving certificate for right of way. The Company will present the acquired rights as intangible assets and financial liability as the acquired rights are capitalized for the period of 3 years. Unwinding of accrued interest is recognized as an interest expense and is presented within other financial income/expense.

Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 900/1800 MHz frequency bands	13 years
Radio frequency spectrum in 800 MHz frequency band	11-12 years
Right of servitude for Distributive Telecommunication Infrastructure (DTI)	3 years
Software, content and other assets	2-5 years
Customer base	7 years
Brand	Indefinite
Long-term customer contracts	1.5-7 years

Assets under construction are not amortised.

Goodwill arises on the acquisition of subsidiaries. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group’s cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill and intangible assets with indefinite useful lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.4. Summary of accounting policies (continued)

e) Intangible assets (continued)

Impairment for goodwill is determined by assessing the recoverable amount, based on value in use estimations, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 12 for more details.

f) Property, plant and equipment

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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.

Subsequent expenditure on an asset that meets the recognition criteria to be recognized as an asset or an addition to an asset is capitalized, while maintenance and repairs are charged to expense when incurred.

After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

Buildings	10-50 years
Telecom plant and machinery	
Cables	8-18 years
Cable ducts and tubes	30 years
Other	2-15 years
Customer premises equipment (CPE)	7 years
Tools, vehicles, IT, office and other equipment	4-15 years

Land and assets under construction are not depreciated.

Useful lives, depreciation method and residual values are reviewed at each financial year-end, and if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

Construction-in-progress represents plant and properties under construction and is stated at cost.

Depreciation of an asset begins when it is available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within ‘Other expenses’ in the statement of comprehensive income.

2.4. Summary of accounting policies (continued)

g) Investment property

Investment property, principally comprising business premises and land, is held for long-term rental yields or appreciation and is not occupied by the Company. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Depreciation of buildings is calculated using the straight-line method to allocate their cost over their estimated useful lives of 10 to 50 years (2014: 10 to 50 years).

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

h) Impairment of assets

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment of trade receivables

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the underlying arrangement. 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. Provisions for impairment are measured according to the collection best 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.

Impairment of available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

2.4. Summary of accounting policies (continued)

i) Inventories

Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs necessary to make the sale. Cost is determined on the basis of weighted average cost.

Phone sets are often sold for less than cost in connection with promotions to obtain new and/or retain existing subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as inventory impairment immediately.

j) Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If collection is expected after one year the receivables are presented as non-current assets. Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

k) Foreign currencies

Transactions denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the statement of comprehensive income within financial income or financial expense, respectively.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;

(b) income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and

(c) all resulting exchange differences are recognized in statement of other comprehensive income.

2.4. Summary of accounting policies (continued)

l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the assets and the lease term.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

m) Taxation

The income tax charge is based on profit for the year and includes deferred taxes. Deferred taxes are calculated using the balance sheet method.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at the reporting date.

Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.4. Summary of accounting policies (continued)

m) Taxation (continued)

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.
Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.
Current and deferred taxes are charged or credited in other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period in other comprehensive income.

n) Employee benefit obligations

The Group provides other long-term employee benefits (Note 22). These benefits include retirement payments. The defined benefit obligation is calculated annually by independent actuary 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.

Past service costs are recognized in the statement of comprehensive income immediately in the period in which they occur. Gains or losses on the curtailment or settlement of benefit plans are recognized when the curtailment or settlement occurs. The benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of comprehensive income.

The Group provides death in service short term benefits which are recognized as an expense of the period in which it incurred.

o) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements with the exception of the provision of its telecommunications infrastructure to third parties that offer value added services to its customer. In these cases, the Group is acting as an agent.

Revenue from fixed telephony includes revenue from activation fees, monthly fees, calls placed by fixed line subscribers and revenue from additional services in fixed telephony. Revenue from activation fees is recognized on a straight-line basis throughout future periods depending on estimated life of a customer’s connection. Estimated life is 6 years in 2014 (2014: 7 years).

Revenue from wholesale services includes interconnection services for domestic and international carriers, and revenue from usage of network by other operators.

2.4. Summary of accounting policies (continued)

o) Revenue recognition (continued)

Revenues from the provision of its network to the provider of value added services are reported on a net basis. Revenues are exclusively the amount of the commission received.

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

Revenue from mobile telephony includes revenue from monthly fee and call charges for "post-paid" mobile customers, call charges for "pre-paid" mobile customers, call charges for customers of international mobile operators when roaming on the Group's mobile network, sale of mobile handsets, domestic interconnection revenues related to mobile network, revenues for short and multimedia messages and data traffic revenues.

Revenue from unused tariff packages and prepaid vouchers is recognized when they are realised. Before their realisation, they are recorded as deferred revenues.

Revenue from the sales of electricity is recognized at fair value in the period when service is provided to customers.

The Group offers certain multiple-element arrangements (bundled product offers) arrangements. 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. If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the total arrangement consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total arrangement consideration and the fair value of the undelivered elements.

Revenue from internet and data services includes revenue from leased lines, frame relay, Ethernet services, ADSL subscription and traffic, fixed line access, VPN online, internet traffic to T-Com call number, Multimedia services, IP phone (access and traffic) and IPTV. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions.

Revenue from ICT includes revenue from restructuring business processes, application management services, technology infrastructure and system maintenance and the design and development of complex IT systems to a client's specifications (design and build) and WEB hosting. For bundled offer 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.

2.4. Summary of accounting policies (continued)

o) Revenue recognition (continued)

Revenues and expenses from fixed-price design and build contracts where the outcome can be estimated reliably are recognised under percentage-of completion (POC) method. Estimates are revised and can result in decrease or an increase of estimated revenues and expenses and are included in statement of comprehensive income in the year in which circumstances that give rise to the revision become known to management.

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.

Revenue from dividends is recognized when the Group's right to receive the payment is established.

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

The Group maintained a loyalty point's programme, T-Club until November 2014. In accordance with IFRIC 13, customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. The deferred amount is then recognized as revenue over the period that the award credits are redeemed.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and which are subject to an insignificant risk of change in value.

q) Borrowings

Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings, are expensed in the period in which they are incurred, except those which directly attributable to the acquisition, construction or production of qualifying assets and are capitalised. Borrowings are initially recognized in the amount of the proceeds received net of transaction costs.

Mandatory convertible loan (MCL) is classified as equity and it is recognized at its nominal value which approximates its fair value.

2.4. Summary of accounting policies (continued)

r) Financial assets

All investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Available-for-sale financial assets are classified as current assets if management intends to realise them within 12 months after the statement of financial position date. All purchases and sales of investments are recognized on the settlement date.

Financial assets are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale financial assets and trading financial assets are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the statement of financial position date. Gains or losses on measurement to the fair value of available-for-sale financial assets are recognized in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the net profit or loss for the period.

Financial instruments are generally recognized as soon as the Group becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. A financial asset is derecognized when the cash is collected or the rights to receive cash from the assets have expired. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Securities obtained under agreements to resell (“reverse REPO agreements”) are essentially guarantees or collateral for money held with banks and are not recorded in the balance sheet. The related amounts held by banks are recorded as secured deposits for maturities over three months or as cash equivalents for maturities under three months.

s) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying 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 statement of financial position date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a 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 recognized as interest expense.

Provisions for termination benefits are recognized when the Group is demonstrably committed to a termination of employment contracts, that is when the Group has a detailed formal plan for the termination which is without realistic possibility of withdrawal. Provisions for termination benefits are computed based on amounts paid or expected to be paid in redundancy programs.

2.4. Summary of accounting policies (continued)

t) 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.

u) Share-based payments

The cost of cash-settled and equity-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 34. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability for cash-settled and equity-settled transactions are recognised in equity. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognized in the statement of comprehensive income.

v) Events after reporting period

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

w) Trade payables

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

x) Dividend distribution

Dividend distributions to the Group's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

y) Earnings per share

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

z) Contributed equity

Ordinary shares are classified as equity. Shares held by the Company are disclosed as treasury shares and deducted from contributed equity.

3 Business combinations

In 2014, the Group acquired voting shares in Optima Telekom d.d. (Optima) through pre-bankruptcy settlement. Shares with a value of HRK 52 million were acquired directly through court decision by converting receivables into equity share as of 18 June 2014. An additional interest was acquired through the Mandatory Convertible Loan (MCL) instrument in the amount of HRK 69 million, as of 9 July 2014, hereby was converted into Optima equity pursuant to Management Board decision as of 23 July 2014 and approval of the Supervisory Board. These two transactions are treated as a single transaction in these consolidated financial statements.

The Group's total share in Optima amounts to 19.02% as of 31 December 2015 (31 December 2014: 19.11%). 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 a participant in concentration with regard to management and control over Optima, among which is the implementation of a 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 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 commence the process of selling all of its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well.

3 Business combinations (continued)

The fair value of the identifiable assets and liabilities of Optima Telekom as at the date of acquisition were:

	Fair value recognised at acquisition HRK millions
Assets	
Intangible assets	292
Property, plant and equipment	337
Non-current financial assets	2
Inventories	2
Trade receivables	80
Prepaid expenses and other current assets	22
Cash and cash equivalents	35
	770
Liabilities	
Long-term liabilities	402
Trade payables	73
Other liabilities and accrued expenses	43
Deferred tax liability	50
	568
Total identifiable net assets at fair value	202
Non-controlling interest	(171)
Goodwill arising on acquisition	90
Purchase consideration transferred	121

The total cost of acquisition amounted to HRK 121 million.

Intangible assets acquired consist of customer base, brand and long-term contracts.

The goodwill arising on acquisition is attributable to economies of scale which are expected to be realised mainly through cost reductions and restructuring of business processes within Optima.

After the date of acquisition and subsequent consolidation of Optima into the financial statements of the Group, Optima has contributed HRK 221 million to the revenue and HRK 1 million of loss to the net profit of the Group for 2014. If the acquisition had taken place at the beginning of the year, Group pro-forma revenue from the operations would have been HRK 7,133 million and the profit of the Group would have been to HRK 1,133 million.

4 Segment information

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

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

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

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

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

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

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

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

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

4 Segment information (continued)

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

Year ended 31 December 2014	Residential	Business	Network and Support functions	Optima Telekom consolidated	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Segment revenue	3,942	2,745	-	221	6,908
Service revenues (restated)	*3,644*	*2,552*	-	-	*6,196*
Terminal equipment	*214*	*84*	-	-	*298*
Other (restated)	*84*	*109*	-	*221*	*414*
Usage related direct costs	(272)	(236)	-	(42)	(550)
Income and losses on accounts receivable	(24)	(62)	-	(3)	(89)
Contribution margin I (restated)	3,646	2,447	-	176	6,269
Non-usage related direct costs	(547)	(657)	-	(5)	(1,209)
Segment result (restated)	3,099	1,790	-	171	5,060
Other operating income (restated)	-	-	113	11	124
Other operating expenses (restated)	(447)	(423)	(1,615)	(59)	(2,544)
Depreciation, amortization and impairment of non-current assets (restated)	-	-	(1,363)	(52)	(1,415)
Operating profit (restated)	**2,652**	**1,367**	**(2,865)**	**71**	**1,225**

Year ended 31 December 2015					
Segment revenue	3,776	2,718	-	425	6,919
Service revenues	*3,381*	*2,474*	-	-	*5,855*
Terminal equipment	*230*	*100*	-	-	*330*
Other	*165*	*144*	-	*425*	*734*
Usage related direct costs	(212)	(197)	-	(92)	(501)
Income and losses on accounts receivable	(35)	(23)	-	(3)	(61)
Contribution margin I	3,529	2,498	-	330	6,357
Non-usage related direct costs	(529)	(778)	-	(4)	(1,311)
Segment result	3,000	1,720	-	326	5,046
Other operating income	-	-	96	2	98
Other operating expenses	(411)	(377)	(1,557)	(108)	(2,453)
Depreciation, amortization and impairment of non-current assets	-	-	(1,401)	(91)	(1,492)
Operating profit	**2,589**	**1,343**	**(2,862)**	**129**	**1,199**

4 Segment information (continued)

Revenue by geographical area

	2015 HRK millions	2014 HRK millions
Republic of Croatia	6,554	6,574
Rest of the world	365	334
	6,919	**6,908**

The majority of the Group’s assets are located in Croatia.

None of the Group’s external customers represent a significant source of revenue.

5 Merchandise, material and energy expenses

	2015 HRK millions	2014 HRK millions
Cost of goods sold	1,078	1,001
Energy costs	104	110
Energy sales costs	48	17
Cost of raw material and supplies	31	37
Arrangement sales cost	11	-
	1,272	**1,165**

6 Service expenses

	2015 HRK millions	2014 HRK millions
Domestic interconnection	298	375
International interconnection	202	174
Other services	210	233
	710	**782**

7 Depreciation, amortization and impairment of non-current assets

	2015 HRK millions	2014 HRK millions
Depreciation	903	913
Amortization	566	469
	1,469	1,382
Impairment loss	23	33
	1,492	**1,415**

Notes 12, 13 and 14 disclose further details on amortization and depreciation expense and impairment loss.

8 Employee benefits expenses

	2015 HRK millions	2014 HRK millions
Gross salaries without contribution	604	683
Taxes, contribution and other payroll costs	177	199
Contribution from gross salaries	148	168
Redundancy expenses (Note 23)	91	137
Long-term employee benefits	3	(59)
	1,023	**1,128**

9 Other expenses

	2015 HRK millions	2014 HRK millions
Licence cost	324	206
Maintenance services	311	319
Rent (Note 27)	134	179
Advertising	114	116
Selling commission	99	93
Contract workers	79	85
Provision of trade receivables – net (Note 18)	61	89
Call centre and customer care support	49	42
Postal expenses	40	46
Non-income taxes and contribution	39	40
Education and consulting	33	68
Daily allowances and other costs of business trips	13	20
Insurance	11	13
Write down of inventories	6	6
Loss on disposal of fixed assets	1	1
Other operating charges	95	84
	1,409	**1,407**

10 Income tax expense

a) Tax on profit

	2015 HRK millions	2014 HRK millions
Current tax expense	227	41
Deferred tax expense	-	6
	227	**47**

10 Income tax expense (continued)

b) Reconciliation of the taxation charge to the income tax rate

	2015 HRK millions	2014 HRK millions
Profit before taxes	1,168	1,185
Income tax at 20% (domestic rate)	234	237
Tax effect of:		
Reinvested profit not subject to tax	-	(191)
Income not subject to tax	(1)	(7)
Tax adjustment related to previous years	-	(3)
Expenses not deductible for tax purposes	4	5
Tax effects of tax loss carry forward for which no deferred income tax asset was recognised	(11)	(1)
Other	1	7
	227	**47**
Effective tax rate	19.43%	3.97%

10 Income tax expense (continued)

Components and movements of deferred tax assets and liabilities are as follows:

Deferred tax assets and liabilities recognized in:	31 December 2015	(charged) / credited in 2015	31 December 2014	(charged) / credited in 2014	Balance after acquisition	Acquisition of a subsidiary	1 January 2014
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Statement of comprehensive income							
Non-tax deductible provisions	15	(6)	21	(1)	22	-	22
Property, plant and equipment write down	12	1	11	(6)	17	-	17
Accrued interest on legal cases	2	(1)	3	(1)	4	-	4
Other	17	1	16	(1)	17	-	17
	46	(5)	51	(9)	60	-	60
Other comprehensive income							
Actuarial gains and losses	-	-	-	-	-	-	-
Deferred income tax asset	**46**	(5)	**51**	(9)	60	**-**	**60**
Statement of comprehensive income						-	
Past service costs	-	-	-	-	-	-	-
Purchase price allocation	42	(5)	47	(3)	50	50	-
	42	(5)	47	(3)	50	50	-
Other comprehensive income						-	
Actuarial gains and losses	3	-	3	1	2	-	2
Deferred income tax liability	**45**	(5)	**50**	(2)	52	**50**	**2**

10 Income tax expense (continued)

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total deferred tax assets, current portion amounts to HRK 29 million.

Deferred tax asset arises on the property, plant and equipment impairment, on provision of impairment of receivables and inventories (materials, merchandise), and related to accruals and provisions and other temporary differences.

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2017 for the 2015 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until the absolute statute of limitation of 6 years expires.

The Group has not recognised deferred income tax assets of HRK 35 million in respect of losses amounting to HRK 175 million that can be carried forward against future taxable income. These losses relate to subsidiaries of the Group for which it is uncertain whether there will be sufficient future taxable profits to realise these deferred income tax assets.

In 2015, the tax authorities started conducting a supervision review of HT for the year ended 2014.

Losses expires in:	HRK million
2016	95
2017	48
2018	32
	175

11 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares or share options.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2015	2014
Profit for the year attributable to ordinary equity holders of the Company in HRK millions	925	1,143
Weighted average number of ordinary shares for basic earnings per share	81,884,604	81,884,604
	HRK 11.30	**HRK 13.95**

12 Intangible assets

	Licences	Software	Goodwill	Assets under construction and other assets	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
				Restated	Restated
As at 1 January 2014					
Cost	580	2,874	162	594	4,210
Accumulated amortization and impairment losses	(187)	(2,321)	-	(337)	(2,845)
Net book value	**393**	**553**	**162**	**257**	**1,365**
Year ended 31 December 2014					
Opening net book value	393	553	162	257	1,365
Acquisition of a subsidiary (Note 3)	6	12	90	274	382
Additions	-	172	-	274	446
Transfers	-	80	-	(80)	-
Amortization charge	(37)	(258)	-	(174)	(469)
Impairment loss	-	(2)	-	-	(2)
Net book value	**362**	**557**	**252**	**551**	**1,722**
As at 31 December 2014					
Cost	593	3,090	252	1,066	5,001
Accumulated amortization and impairment losses	(231)	(2,533)	-	(515)	(3,279)
Net book value	**362**	**557**	**252**	**551**	**1,722**
Year ended 31 December 2015					
Opening net book value	362	557	252	551	1,722
Additions	-	182	-	315	497
Transfers	-	56	-	(56)	-
Amortization charge	(35)	(294)	-	(237)	(566)
Impairment loss	-	(2)	-	-	(2)
Net book value	**327**	**499**	**252**	**573**	**1,651**
As at 31 December 2015					
Cost	494	3,297	252	1,325	5,368
Accumulated amortization and impairment losses	(167)	(2,798)	-	(752)	(3,717)
Net book value	**327**	**499**	**252**	**573**	**1,651**

12 Intangible assets (continued)

The intangible assets of the Group as at 31 December 2015 include five licences for use of the radio frequency spectrum (Notes 2.4. e) and 33 b)).

Assets under construction primarily relate to software and the various licences for the use of software.

Intangible assets with indefinite useful life consist of brand name identified during purchase price allocation of Optima Telekom d.d. acquisition (Note 3). Carrying value as at 31 December 2015 is HRK 61 million (31 December 2014 HRK nil).

Additions of intangible assets

Major additions in the 2015 reporting period relate to application, system and network technology software and user licences in the amount of HRK 182 million and capitalised content costs in the amount of HRK 157 million.

Impairment loss

During 2015, the Group recognized an impairment loss for intangible assets of HRK 2 million (2014: HRK 2 million).

Disposal of intangible assets

The disposal of intangible assets primarily relates to the disposal of software in the gross amount of HRK 100 million (2014: HRK 120 million).

12 Intangible assets (continued)

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. An operating segment-level summary of the goodwill allocation is presented below:

	31 December 2015 HRK millions	31 December 2014 HRK millions
Residential	55	55
Business	107	107
Optima Telekom consolidated	90	90
	252	**252**

The key assumptions used for value-in-use calculations are as follows:

	Optima Telekom consolidated		Residential		Business	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate	10.06%	9.9%	10.03%	9.6%	10.03%	9.6%

The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions on which the determination of CGUs value in use is based reflect past experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and post-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planed internal products. Forecast period is 10 years.

Impairment testing of brand

Optima has registered the name and trade mark "Optima" as intellectual property rights. Brand is an indefinitive – lived asset, and it is tested for impairment annually using the Relief from Royalty method. The brand value represents the net present value of the projected brand earnings, discountedusing the after-tax discount rate on projected cash flows. The net present value calculation comprises both the explicit five and a half year projections and the terminal period, as this reflects the brands ability to create revenues in perpetuity. The growth rate of projected cash flows and the discount rate used is the same as the key assumptions utilised in the impairment testing of goodwill (reflected above).

13 Property, plant and equipment

	Land and buildings HRK millions	Telecom plant and machinery HRK millions	Tools, vehicles, IT and office equipment HRK millions	Assets under construction and other assets HRK millions	Total HRK millions
As at 1 January 2014					
Cost	2,213	11,612	1,007	439	15,271
Accumulated depreciation and impairment losses	(1,173)	(7,794)	(784)	(4)	(9,755)
Net book value	**1,040**	**3,818**	**223**	**435**	**5,516**
Year ended 31 December 2014					
Opening net book value	1,040	3,818	223	435	5,516
Acquisition of a subsidiary (Note 3)	16	306	7	8	337
Additions	10	377	26	213	626
Transfers	38	264	34	(336)	-
Disposals	-	(8)	(6)	(2)	(16)
Depreciation charge	(93)	(735)	(83)	-	(911)
Impairment loss	(1)	(16)	(6)	(8)	(31)
Net book value	**1,010**	**4,006**	**195**	**310**	**5,521**
As at 31 December 2014					
Cost	2,239	12,482	1,009	318	16,048
Accumulated depreciation and impairment losses	(1,229)	(8,476)	(814)	(8)	(10,527)
Net book value	**1,010**	**4,006**	**195**	**310**	**5,521**
Year ended 31 December 2015					
Opening net book value	1,010	4,006	195	310	5,521
Additions	14	520	38	401	973
Transfers	6	214	12	(232)	-
Disposals	(10)	-	(2)	(2)	(14)
Depreciation charge	(86)	(746)	(69)	-	(901)
Impairment loss	-	(20)	-	(1)	(21)
Net book value	**934**	**3,974**	**174**	**476**	**5,558**
As at 31 December 2015					
Cost	2,242	12,626	1,036	485	16,389
Accumulated depreciation and impairment losses	(1,308)	(8,652)	(862)	(9)	(10,831)
Net book value	**934**	**3,974**	**174**	**476**	**5,558**

13 Property, plant and equipment (continued)

Included within assets under construction of the Group are major spare parts of HRK 16 million (31 December 2014: HRK 20 million), net of an impairment provision of HRK 1 million (31 December 2014: HRK 1 million).

Beginning in 2001, the Group has performed additional procedures which have provided support for the existence of legal title to land and buildings transferred from HPT s.p.o. under the Separation Act of 10 July 1998. The Group is still in the process of formally registering this legal title.

The Group does not have any material property, plant and equipment held for disposal.

Impairment loss

In 2015, the Group recognized an impairment loss on property, plant and equipment of HRK 21 million (2014: HRK 31 million) mostly due to transfer to newer technology. The recoverable amount of that equipment is its estimated fair value less costs to sell, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom switches and devices, old tools, IT, office equipment and vehicles in the gross amount of HRK 650 million (2014: HRK 522 million).

Ownership over ducts

Although assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company, by virtue of the Law on Separation of Croatian Post and Telecommunication and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, part of the Group's infrastructure that is considered as a real estate, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) and a major portion of these assets is not registered in the land registry, which may be relevant to the issue of proving the ownership towards third parties. Intrusions in HT's ducts by other competitors and some claims of ownership over these assets by the local authorities (the City of Zagreb and City of Split present the majority of issues), may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for such ducts. However, HT management believes the likelihood of occurrence of such circumstances is remote Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2015 is HRK 812 million (31 December 2014: HRK 816 million).

14 Investment property

	Investment property
	HRK millions
As at 1 January 2014	
Cost	97
Accumulated depreciation and impairment losses	(43)
Net book value	**54**
Year ended 31 December 2014	
Opening net book value	54
Additions	4
Depreciation charge	(2)
Net book value	**56**
As at 31 December 2014	
Cost	101
Accumulated depreciation and impairment losses	(45)
Net book value	**56**
Year ended 31 December 2015	
Opening net book value	56
Additions	3
Depreciation charge	(2)
Net book value	**57**
As at 31 December 2015	
Cost	104
Accumulated depreciation and impairment losses	(47)
Net book value	**57**

The Company has classified unoccupied buildings and undeveloped land as investment property.

15 Investments accounted for using the equity method

The net book value of investments accounted for using the equity method comprises:

	31 December 2015 HRK millions	31 December 2014 HRK millions
Joint venture HT d.d. Mostar:		
As at 1 January	393	396
Share of profit	4	14
Dividends paid	-	(17)
As at 31 December	397	393
Associate HP d.o.o. Mostar:		
As at 1 January	2	2
Share of (loss)/ profit	(1)	1
(Impairment loss) / reversal of impairment loss	1	(1)
As at 31 December	2	2
	399	**395**

a) Investment in joint venture:

The Group has an ownership interest of 39.1% in its joint venture HT d.d. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of this company is provision of telecommunication services.

All decisions made by the Management Board and all decisions made by the Supervisory Board have to be approved by both of the majority shareholders. Therefore, the investment is classified as a jointly controlled entity. The rest of the company is mainly owned by the Federation of Bosnia and Herzegovina (50.10%).

The Group's share in HT d.d. Mostar profit for the year ended 31 December 2015 is recognized in the statement of comprehensive income in the amount of HRK 4 million (2014: HRK 14 million).

In 2015, HT did not receive any dividend from HT d.d. Mostar (2014: HRK 17 million).

b) Investment in associate:

The Group has an ownership interest of 30.29% in its associate HP d.o.o. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of the associate is provision of postal services.

15 Investments accounted for using the equity method (continued)

Summarised financial information for investments accounted for using the equity method is as follows:

Summarised statement of financial position:	31 December 2015 HRK millions	31 December 2014 HRK millions
Joint venture HT d.d. Mostar:		
Current		
Cash and cash equivalents	22	12
Other current assets	283	347
Total current assets	**305**	**359**
Financial liabilities	1	11
Other current liabilities	259	299
Total current liabilities	**260**	**310**
Non current		
Assets	**1,322**	**1,304**
Financial liabilities	10	10
Other liabilities	31	30
Total non-current liabilities	**41**	**40**
Net assets	**1,326**	**1,313**
Associate HP d.o.o. Mostar:		
Current		
Cash and cash equivalents	15	24
Other current assets	26	25
Total current assets	**41**	**49**
Financial liabilities	-	-
Other current liabilities	15	16
Total current liabilities	**15**	**16**
Non current		
Assets	**58**	**57**
Financial liabilities	-	-
Other liabilities	2	4
Total non-current liabilities	**2**	**4**
Net assets	**82**	**86**

15 Investments accounted for using the equity method (continued)

Summarised statement of comprehensive income:	2015 HRK millions	2014 HRK millions
Joint venture HT d.d. Mostar:		
Revenue	868	866
Depreciation and amortisation	(240)	(250)
Interest income	7	10
Interest expense	(1)	(3)
Pre-tax profit	12	38
Income tax expense	(2)	(5)
Net income	10	33
Dividends received	-	17
Associate HP d.o.o. Mostar:		
Revenue	95	98
Depreciation and amortisation	(3)	(3)
Interest income	1	1
Interest expense	-	-
Pre-tax (loss)	(4)	-
Income tax expense	-	-
Net income	(4)	-
Dividends received	-	-

15 Investments accounted for using the equity method (continued)

Reconciliation of summarised financial information	31 December 2015 HRK millions	31 December 2014 HRK millions
Joint venture HT d.d. Mostar		
Opening net assets 1 January	1,312	1,326
Profit for the period	10	33
Dividends paid	-	(41)
Foreign currency translation	4	(6)
Closing net assets	1,326	1,312
Interest in joint venture 39.10%	518	513
Foreign currency translation	-	1
Impairment	(121)	(121)
Carrying value	397	393
Associate HP d.o.o. Mostar		
Opening net assets 1 January	89	87
(Loss) for the period	(4)	-
Foreign currency translation	(2)	(1)
Closing net assets	83	86
Interest in associates 30.29%	25	27
Foreign currency translation	1	(1)
Impairment	(24)	(24)
Carrying value	2	2

16 Available-for-sale financial assets

Available-for-sale financial assets, at fair value, include the following:

Issuer	*Credit rating*	*Currency*	*Maturity*	31 December 2015 HRK millions	31 December 2014 HRK millions
Domestic bond:					
Government Republic of Croatia	BB+	HRK	8 February 2017	36	36
Foreign bonds:					
Government of Netherland	AAA	EUR	15 July 2025	145	-
Government of France	AA	EUR	25 May 2024	86	-
Government of Germany	AAA	EUR	15 May 2023	83	84
Government of Germany	AAA	EUR	4 September 2022	83	84
Government of Austria	AA+	EUR	20 October 2025	79	-
Government of Germany	AAA	EUR	15 February 2025	76	-
Government of Netherland	AAA	EUR	15 April 2016	76	77
Government of France	AA	EUR	25 July 2015	-	184
Government of Germany	AAA	EUR	11 December 2015	-	77
Government of Netherland	AAA	EUR	15 April 2015	-	77
Other				5	8
				669	**627**
Non-current				591	289
Current				78	338
				669	**627**

Interest rate on domestic bond is 4.75%. Interest rates on foreign bonds are up to 2.25%.

The estimated fair value of investments in bonds at 31 December 2015 is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belongs to level 1 under the financial instruments fair value hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2015.

17 Inventories

	31 December 2015 HRK millions	31 December 2014 HRK millions
Merchandise	77	58
Inventories and spare parts	28	57
	105	**115**

18 Trade and other receivables

	31 December 2015 HRK millions	31 December 2014 HRK millions
Trade receivables	70	87
Other receivables	28	34
Non-current	98	121
Trade receivables	1,162	1,195
Other receivables	57	45
Current	1,219	1,240
	1,317	**1,361**

During 2013, the Group entered into several prebankruptcy settlements with its debtors which stipulate that part of reported current trade receivables is converted to non-current receivables (HRK 37 million) with maturities up to 5 years.

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	31-60 days	61-90 days	91-180 days	>180 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
31 December 2015	1,162	914	136	42	19	43	8
31 December 2014	1,195	915	152	47	24	49	8

18 Trade and other receivables (continued)

As at 31 December 2015, trade receivables with a nominal value of HRK 1,117 million (31 December 2014: HRK 1,150 million) were deemed impaired and fully provided for.

Movements in the provision for impairment of receivables were as follows:

	2015 HRK millions	2014 HRK millions
As at 1 January	1,150	1,100
Acquisition of a subsidiary (Note 3)	-	29
Charge for the year (Note 9)	120	160
Unused amounts reversed (Note 9)	(59)	(71)
Receivables written-off	(94)	(68)
As at 31 December	**1,117**	**1,150**

19 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

	31 December 2015 HRK millions	31 December 2014 HRK millions
Cash on hand and balances with banks	2,057	1,236
Time deposits with maturity less than 3 months	754	797
Secured deposits (reverse REPO agreements)	364	159
	3,175	**2,192**

b) Currency breakdown of cash and cash equivalents and time deposits:

	31 December 2015 HRK millions	31 December 2014 HRK millions
HRK	1,693	2,101
EUR	1,613	593
USD	79	99
BAM	18	12
GBP	2	1
	3,405	**2,806**

19 Cash and cash equivalents and bank deposits (continued)

c) Time deposits with maturities more than 3 months

	31 December 2015 HRK millions	31 December 2014 HRK millions
Foreign bank	230	614
Domestic banks	1	-
	231	**614**

d) Guarantee deposits

	Current		Non-current	
	31 December 2015 HRK millions	31 December 2014 HRK millions	31 December 2015 HRK millions	31 December 2014 HRK millions
Foreign bank	17	21	43	51
Domestic banks	-	1	-	-
	17	**22**	**43**	**51**

19 Cash and cash equivalents and bank deposits (continued)

e) Secured deposits (reverse REPO agreements)

Issuer	*Currency*	*Maturity*	31 December 2015 HRK millions	31 December 2014 HRK millions
Reverse REPO agreements (Note 30 g)):				
Erste Steiermärkische Bank d.d.	HRK	27 January 2016	177	-
Raiffeisen Bank Austria d.d.	HRK	18 April 2016	117	-
Erste Steiermärkische Bank d.d.	HRK	22 February 2016	90	-
Raiffeisen Bank Austria d.d.	HRK	14 January 2016	74	-
Raiffeisen Bank Austria d.d.	HRK	1 February 2016	74	-
Erste Steiermärkische Bank d.d.	HRK	20 February 2015	-	92
Erste Steiermärkische Bank d.d.	HRK	23 January 2015	-	91
Erste Steiermärkische Bank d.d.	HRK	6 May 2015	-	81
Raiffeisen Bank Austria d.d.	HRK	21 April 2015	-	75
Raiffeisen Bank Austria d.d.	HRK	15 April 2015	-	75
Raiffeisen Bank Austria d.d.	HRK	23 March 2015	-	75
Raiffeisen Bank Austria d.d.	HRK	30 March 2015	-	75
			532	**564**

Interest rates at 31 December 2015 on reverse REPO agreements range up to 1.20%.

20 Trade payables and other liabilities

	31 December 2015 HRK millions	31 December 2014 HRK millions Restated	1 January 2014 HRK millions Restated
Content contracts	60	99	82
ECI contracts	44	24	5
Licence for radio frequency spectrum	15	28	34
Liabilities related to pre-bankruptcy settlements	-	27	-
Other	32	17	22
Non-current	151	195	143
Trade payables	1,279	1,285	1,360
Content contracts	175	155	96
VAT and other taxes payable	69	83	99
Payroll and payroll taxes	65	69	77
Liabilities related topre-bankruptcy settlements	29	31	-
ECI contracts	26	7	2
Licence for radio frequency spectrum	8	7	8
Other	42	34	26
Current	1,693	1,671	1,668
	1,844	**1,866**	**1,811**

21 Deferred income

	31 December 2015 HRK millions	31 December 2014 HRK millions
Connection fee	2	3
Leased line	-	23
Non-current	2	26
Prepaid vouchers	61	76
Connection fee	1	1
Other	41	34
Current	103	111
	105	**137**

22 Employee benefit obligations

Long-term employee benefits include retirement payments in accordance with the collective agreement. Jubilee awards were discontinued during 2014. Long-term employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognized as other comprehensive income in the period in which they occur.

Long-term employee benefits include a compensation for the employees described in Note 34.

The movement in the liability recognized in the statement of financial position was as follows:

	2015 HRK millions	2014 HRK millions
As at 1 January	8	70
Acquisition of a subsidiary (Note 3)	-	1
LTIP – Variable II (Note 34)	3	2
Service costs	3	5
Interest costs	-	2
Past service costs	-	(51)
Amortization losses / (gains)	-	(8)
Benefit paid	(1)	(7)
Curtailments	-	(4)
Actuarial losses / (gains)	(1)	(1)
As at 31 December	**12**	**9**
Retirement	2	2
LTIP – Variable II	10	7
	12	**9**

As at 31 December 2015, the current portion of the provision for LTIP programme amounts to HRK 3 million.

The principal actuarial assumptions used to determine retirement benefit obligations as at 31 December were as follows:

	2015 in %	2014 in %
Discount rate (annually)	4.15	6.50
Wage and salary increases (annually)	-	2.00

23 Provisions for other liabilities and charges

	Legal claims	Asset retirement obligation	Redundancy	Variable salary	Unused vacation	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2015	37	25	35	77	11	185
Additions	7	1	91	70	8	177
Utilisation	(8)	-	(122)	(65)	(11)	(206)
Reversals	(8)	-	-	(13)	-	(21)
Current portion of employee benefits obligations (Note 22)	-	-	-	1	-	1
Interest costs	-	2	-	-	-	2
As at 31 December 2015	**28**	**28**	**4**	**70**	**8**	**138**
Non-current	28	28	-	-	-	56
Current	-	-	4	70	8	82
	28	**28**	**4**	**70**	**8**	**138**

23 Provisions for other liabilities and charges (continued)

a) Legal claims

As at 31 December 2015, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

b) Asset retirement obligation

Asset retirement obligation primarily exists in the case of telecommunications structures constructed on third parties' properties. The Group carries out a revision of the necessary provisions every year.

c) Redundancy

Redundancy expenses and provisions include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2015.

24 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2015 HRK millions	31 December 2014 HRK millions
81,888,535 ordinary shares without par value	9,823	8,883

Issued share capital increased in 2015 by amount of HRK 940 million (2014: HRK 694 million) due to partial reinvestment of profit for the year 2014 in accordance with provisions of the related tax regulations (Note 10).

The number of shares in issue remained unchanged between 1 January 1999 and 31 December 2015.

In 2015, the Group did not acquire any of its own shares (2014: nil). The Group holds 3,931 of its own treasury shares as at 31 December 2015.

25 Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued share capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the issued capital they can also be used to increase the issued share capital of the Group. These reserves are not distributable.

26 Retained earnings

In 2015, the Group paid a dividend of HRK 7.00 per share (2014: HRK 9.00) for a total of HRK 573 million (2014: HRK 737 million).

27 Commitments

a) Operating lease commitments

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

Operating lease charges:

	2015 HRK millions	2014 HRK millions
Current year expense (Note 9)	134	179

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

	31 December 2015 HRK millions	31 December 2014 HRK millions
Within one year	156	159
Between 1 and 5 years	456	545
Greater than 5 years	263	390
	875	**1,094**

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

	31 December 2015 HRK millions	31 December 2014 HRK millions
Intangible assets	100	106
Property, plant and equipment	964	1,045
	1,064	**1,151**

28 Contingencies

At the time of preparation of these consolidated financial statements, there are few outstanding claims against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which a provision was established.

The Group vigorously defends all of its legal claims and potential claims, including regulatory matters, third party claims and employee lawsuits. There is no history of significant settlements in Croatia under either the Competition Law or imposed by Misdemeanour Courts. Due to the lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the possible outcome of these cases.

Competition Agency proceedings regarding retransmission of football games

Competition Authority initiated, ex officio, by its decision dated 3 January 2013, formal proceedings against HT relating to potential abuse of dominant position in the market of distribution of premium sport content due to the fact that ArenaSport channels and premium sport content (such as Croatian national league – MAXtv Prva liga, UEFA Champions League and UEFA Europe League) are available only through MAXtv service.

The proceeding is pending.

The pecuniary fine pursuant to the Competition Act is limited to up to 10% of yearly turnover of the Company in the last year for which financial reports have been concluded. Also, according to the Agency´s practice, the fine is usually connected with up to 30% of the turnover acquired from the services provided on the relevant market. On the basis of the results for 2015, 30% of the gross revenue of MAXtv services would amount to HRK 102 million.

Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb

With respect to the ducts issue mentioned under Property, plant and equipment (Note 13), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City (“ZHZDG”) against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range of up to HRK 390 million plus interest.

This law suit is based on a claim that HT is using DTI owned by the City of Zagreb without any remuneration.

On 10 December 2012, the Company received the partial interlocutory judgement and partial judgement by which it was determined that HT is obliged to pay to ZHZDG the fee for usage of the DTI system, and that until the legal validity of this partial interlocutory judgment, litigation will be stopped regarding the amount of the claim. Furthermore, the claim in the part concerning the establishment of the ownership of the City of Zagreb over DTI and other communal infrastructure for laying telecommunication installations on the area of the City of Zagreb for the purpose of communication-information systems and services was rejected. Decision on the litigation costs was left for later judgment. On 21 December 2012, the Company submitted the appeal against this judgment.

28 Contingencies (continued)

Ownership claim of Distributive Telecommunication Infrastructure (DTI) by the City of Zagreb (continued)

On August 4, 2015 the second instance County Court of Varaždin accepted HT's remedy and returned the case back to the first instance court proceeding within which the plaintiff will need to justify its right to file a claim before the court (i.e. to raise an action/ locus standi) as well as to justify and substantially evidence his claim against HT – what kind of DTI, where/ on what location, how and during what period was used by HT.

Based on the merit and development of the legal proceedings, the Company concluded that the likelihood of an obligation arising from this legal case is remote and that there was no need to present a provision related to this case in these financial statements.

29 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DTAG. The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2015 and 2014. Further, DTAG provided technical assistance services to the Group of HRK 13 million (2014: HRK 24 million).

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

	Revenue		Expenses	
	2015	2014	2015	2014
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Ultimate parent				
Deutsche Telekom AG, Germany	49	54	126	134
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	6	7	4	7
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	10	10	11	6
T-Mobile Austria GmbH, Austria	2	3	1	1
T-Systems International GmbH, Germany	3	3	6	5
Magyar Telekom Nyrt., Hungary	6	3	3	2
Slovak Telecom a.s., Slovakia	4	4	-	-
Others	12	9	8	5
	92	**93**	**159**	**160**

29 Balances and transactions with related parties (continued)

The statement of financial position includes the following balances resulting from transactions with related parties:

	Receivables		Payables	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Ultimate parent				
Deutsche Telekom AG, Germany	3	3	117	158
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	-	-	2	4
T-Mobile Austria GmbH, Austria	-	1	-	-
T-Mobile Czech a.s., Czech Republic	2	-	-	-
T-Systems International GmbH, Germany	1	-	2	3
Others	3	2	1	1
	9	**6**	**122**	**166**

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Group as well.

DTAG and the Group did not execute as part of its normal business activities any transactions that were individually material in the 2015 or 2014 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

29 Balances and transactions with related parties (continued)

Compensation of the members Supervisory Board

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

In 2015, the Group paid a total amount of HRK 0.8 million (2014: HRK 0.6 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

In 2015, the total compensation paid to key management personnel of the Group amounted to HRK 38 million (2014: HRK 41 million). Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

Compensation paid to key management personnel includes:

	2015 HRK millions	2014 HRK millions
Short-term benefits	38	41
	38	**41**

30 Financial risk management objectives and policies

The Group is exposed to international service-based markets. As a result, the Group can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 18) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2015, the Group had business transactions with twenty one bank (2014: nineteen banks). The Group held cash and deposits in six banks almost exclusively. For five domestic banks with foreign ownership, the Group received guarantees for deposits placed from parent banks which have a minimum rating of BBB+ or guarantees in form of low-risk government securities. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic and foreign markets and on contacts with the banks on a daily basis.

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

	31 December 2015 HRK millions	31 December 2014 HRK millions
Trade receivables for rendered telecom services to domestic customers	824	825
Trade receivables for rendered telecom services to foreign customers	19	23
Other trade receivables	71	67
	914	**915**

30 Financial risk management objectives and policies (continued)

b) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.

Any excess cash is invested mostly in available-for-sale financial assets.

The amounts disclosed in the table are the contractual undiscounted cash flows:

31 December 2015	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1,488	5	10	12
Capitalized content rights	55	160	79	-
Finance lease	-	5	10	1
Bank borrowings	3	9	113	180
Capitalized ECI rights	10	29	43	34
Liabilities from pre-bankruptcy settlement	-	31	-	-
Issued bond	1	3	64	24
Other liabilities	-	8	49	22

31 December 2014	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1,468	37	-	-
Capitalized rights	41	127	149	-
Finance lease	1	3	6	1
Bank borrowings	3	9	44	318
Capitalized ECI rights	3	10	18	1
Liabilities from pre-bankruptcy settlement	-	31	27	-
Issued bond	-	4	48	47
Other liabilities	-	8	50	30

30 Financial risk management objectives and policies (continued)

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's available-for-sale financial assets, cash, cash equivalents and time deposits.

The following table demonstrates the sensitivity of the Group's profit post tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate investments).

	Increase/ decrease in basis points	Effect on profit post tax HRK millions
Year ended 31 December 2015		
HRK	+100	9
	-100	(9)
EUR	+100	10
	-100	(10)
Year ended 31 December 2014		
HRK	+100	7
	-100	(7)
EUR	+100	7
	-100	(7)

30 Financial risk management objectives and policies (continued)

d) Foreign currency risk

The Company's functional currency is the Croatian Kuna. Certain assets and liabilities are denominated in foreign currencies which are translated at the valid middle exchange rate of the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, available-for-sale financial assets and cash and equivalents, receivables and payables are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase/ decrease in EUR rate	Effect on profit post tax HRK millions
Year ended 31 December 2015	+3%	36
	-3%	(36)
Year ended 31 December 2014	+3%	21
	-3%	(21)

e) Fair value estimation

The fair value of securities included in available-for-sale financial assets is estimated by reference to their quoted market price at the statement of financial position date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, non-current receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued share capital, reserves and retained earnings and totals HRK 11,641 million as at 31 December 2015 (31 December 2014: HRK 11,276 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2015 and 31 December 2014 (Notes 24 and 26).

30 Financial risk management objectives and policies (continued)

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

	Credit rating	31 December 2015 HRK millions	31 December 2014 HRK millions
Foreign bonds:			
Government of Germany	AAA	-	162
Government of Austria	AA+	764	501
Government of Netherlands	AAA	-	77
Government of France	AA	154	-
		918	**740**

All above stated values are fair market values. The accepted collateral is level 1 under IFRS13 categorisation.

h) Offsetting

The following financial assets and financial liabilities are subject to offsetting:

	Trade receivables		Trade payables	
	31 December 2015 HRK millions	31 December 2014 HRK millions	31 December 2015 HRK millions	31 December 2014 HRK millions
Gross recognised amounts	66	68	185	207
Offsetting amount	(54)	(58)	(54)	(58)
	12	**10**	**131**	**149**

31 Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

	Carrying amount		Fair value	
	31 December 2015 HRK millions	31 December 2014 HRK millions	31 December 2015 HRK millions	31 December 2014 HRK millions
Financial assets:				
Cash and cash equivalents	3,174	2,192	3,174	2,192
Guarantee deposits, current	18	22	18	22
Time deposits	231	614	231	614
Available-for-sale assets, non-current	591	289	591	289
Available-for-sale assets, current	89	338	89	338
Secured deposits	533	564	533	564
Guarantee deposits, non-current	43	51	43	51

32 Borrowings

	Carrying amount		Fair value	
	31 December 2015 HRK millions	31 December 2014 HRK millions	31 December 2015 HRK millions	31 December 2014 HRK millions
Bank borrowings	208	230	208	230
Issued bond	71	75	71	75
Non-current	**279**	**305**	**279**	**305**
Finance lease	**11**	**7**	**11**	**7**
Bank borrowings	-	3	-	3
Finance lease	4	3	4	3
Current	**4**	**6**	**4**	**6**
Total	**294**	**318**	**294**	**318**

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 4.54% at 31 December 2015 (31 December 2014: 4.46%).

32 Borrowings (continued)

Borrowings have been secured by guarantees issued by Optima (promissory notes and bills of exchange) in amount of HRK 14 million and by telecom equipment of Optima in the amount of HRK 136 million (net carrying value).

Currency breakdown of financial liabilities

	31 December 2015 HRK millions	31 December 2014 HRK millions
HRK	72	69
EUR	207	239
	279	**308**

Issued bond

Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2017 the Company will pay semi-annual interest at interest rate of 5.25% per year, and principal will be repaid from 30 May 2017 to 30 May 2022.

33 Authorization for Services and Applicable Fees

The Group is party to the following Authorization for Services, none of which are within the scope of IFRIC 12:

a) *Service authorization for the performance of electronic communications services in a fixed and mobile network*

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, four Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13 and 71/14. Pursuant to Article 32 of the Law on Electronic Communications, the Company is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 3 November 2015:

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,
- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- premium rate and freephone services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,
- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers in the Republic of Croatia, and
- other services.

In accordance with HAKOM’s decision of 28 November 2005, the Company was designated as the Universal services provider for a period of five years i.e. till 29 November 2010. Due to expiration of the 5-year period, on 27 October 2010, HAKOM adopted a new decision thereby designating the Company as the operator of the following universal services in the territory of the Republic of Croatia for the next 5-year period starting from 29 November 2010:

- access to the public telephone network and publicly available telephone services at a fixed location, allowing end-users to make and receive local, national and international telephone calls, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access, taking into account prevailing technologies used by the majority of subscribers and technological feasibility,
- access for end-users, including users of public pay telephones, to a telephone directory enquiry service,
- setting up of public pay telephones on public places accessible at any time, in accordance with the reasonable needs of end-users in terms of the geographical coverage, the quality of services, the number of public pay telephones and the accessibility of such telephones for disabled persons,
- special measures for disabled persons, including access to emergency services, telephone directory enquiry services and directories, equivalent to that enjoyed by other end-users, and
- special pricing systems adjusted to the needs of the socially disadvantaged groups of end-users.

33 Authorization for Services and Applicable Fees (continued)

a) Service authorization for the performance of electronic communications services in a fixed and mobile network (continued)

Following the later decision of HAKOM, the Company is no longer designated as universal service operator for service access for end-users to at least one comprehensive directory of all subscribers of publicly available telephone services, however, the Company shall continue to provide the service on commercial basis.

b) Authorization for usage of radio frequency spectrum

HAKOM issued to the Company the following licenses for use of the radio frequency spectrum for public mobile electronic communications networks:

- licence for the use of radio frequency spectrum in 900 MHz and 1800 MHz frequency bands with the validity from 1 December 2011 until 18 October 2024,
- licence for the use of radio frequency spectrum in 2100 MHz frequency band with the validity from 1 January 2010 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 29 October 2012 until 18 October 2024,
- licence for the use of radio frequency spectrum in 800 MHz frequency band with the validity from 6 November 2013 until 18 October 2024, and
- licence for the use of radio frequency spectrum in 1800 MHz frequency band with the validity from 22 December 2013 until 18 October 2024.

HAKOM also issued to the Company licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2015 until 11 August 2020.

c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, the Company is obliged to pay the fees for the use of addresses and numbers, radio frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the maritime affairs, transport and infrastructure The said regulations prescribe the calculation and the amount of fees. These fees are paid for the current year or one year in advance (in case of fees for usage of radio frequency spectrum).

In 2015, the Company paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the maritime affairs, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14 and 147/14)

- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and

- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM’s budget, Official Gazette No. 133/14).

33 Authorization for Services and Applicable Fees (continued)

d) Audiovisual and electronic media services

Pursuant amendment of the Law on audiovisual activities, which entered into the force in July 2011, the Company is obliged to pay the fee in the amount of 2% of the total annual gross income generated from the performing of audiovisual activities on demand for the purpose of the implementation of the National Programme.

Also, the Company (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

Pursuant to the Law on Electronic Media, which entered into force on 29 December 2009, the Company is obliged to pay upon the request the fee of 0.5% of the annual gross revenues realized from the provision of audiovisual media services and the electronic publication services.

e) Electronic communications infrastructure and associated facilities

The Company, as the infrastructure operator, is obligated to pay fees for the right of way in amount that the Company contracted with land owners or accordance with the Law on Electronic Communications. The fees for the right of way are defined by the Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 152/11 and 151/14) that was adopted by HAKOM in December 2011 and became effective as of 4 January 2012. The fee is calculated according to the area of land used for the installation of electronic communications infrastructure and associated facilities.

34 Share-based and non share-based payment transactions

Long-term incentive plans, HT Variable II 2012, HT Variable II 2013, HT Variable II 2014 and Lead to Win 2015 currently exist at Group level.

Lead to Win 2015 is a new DT model of performance management for Executives adapted for the local needs and it integrates target management, performance and potential review (PPR) and succession management. This model is based on clear and transparent link between performance rating and rewards for short term incentive STI, LTI (Long term incentive) and SMP (Share matching Plan), based on DT share. Eligibility and grant-value depend on individual performance and MG (Management Group) level (MG1 – MG3), and MG1 represents the highest level managerial positions.

LTI plan, as a part of Lead to Win model is a global Deutsche Telekom Group's (DT Group) 2015, Group-wide compensation instrument. The aim of the 2015 LTI is to enhance willingness to take on entrepreneurial responsibility and identification with DT Group and thus boost the Group's value in the medium to long-term. This leads to a greater balance of management and shareholder interests. The term of the 2015 LTI shall cover the period from 1 January 2015 to 31 December 2018.

HT Variable II 2011 ended on 31 December 2014, and the Supervisory Board has determined final target achievement of 5,8%. In accordance to this achievement, in August 2015 the awarded amount were paid to participants.

HT Variable II 2012, HT Variable II 2013 and HT Variable II 2014 are cash-based plans with four equally weighted performance parameters that cannot be changed during plan duration. Two targets are financial KPIs, adjusted Earnings Per Share (EPS) and adjusted operating Return On Capital Employed (ROCE), third and fourth targets are customer and employee satisfaction. Duration of the plan is four years effective from 1 January every year.

Upon expiry of the term of the plan, the HT Supervisory Board shall determine whether each of the targets has been achieved. Based on the findings of the HT Supervisory Board, the HT Management Board determines and announce the level of target achievement.

The Variable II amount awarded to International Business Leaders (BLT’s) is fixed sum specified in the individual employment contract, while to other participants amount of reward is 30% or 20% of the participants’ individual annual salary as contracted on the beginning of the plan, depending on management level of the participant and according to the Supervisory Board decision. Participants’ individual annual salary is defined as the annual total fixed salary and the annual variable salary in case of a 100% target achievement.

Variable II offers the option of exceeding the amounts earmarked for award, limited to 150% of the award volume per parameter. The parameters are independent of each other hence, each parameter is assessed separately. Both potential excesses and shortfalls in relation to targets are accounted for on a graded basis per target parameter.

34 Share-based and non share-based payment transactions (continued)

LTI as part of Lead to Win Program 2015 are also cash based plan, and awarded amount depends on MG (Management Group) to which positions of participant belongs and on individual performance. Participants can be only those who meet at least performance rating 3 (score range is from 1 to 5). Based on this the amount shall be from 10% to 30% of the annual target salary depending on MG and on individual performance rating. The relevant amount will be converted into a number of phantom shares in DTAG divisible by four and awarded to the future plan participant in the form of shares The number of phantom shares is linked to four equally weighted success parameters. The target values of the success parameters are set at the beginning of the four-year plan term, and at the end, the total number of received phantom shares, that is dependent on the achievement of defined targets, will be converted into a cash amount to be paid to participants of the plan. An interim value shall be determined for each annual tranche. The plan currency is euros, and four defined success parameters are DT parameters.

Success parameters are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have a target achievement corridor of between 0% and 150% and the shares awarded (basic number) correspond to target achievement of 100%.

The DTAG Supervisory Board determines the target achievement after the end of each year of the plan period. Based on the levels determined, the DTAG Board of Management determines the target achievement for the plan participants On this basis, the responsible bodies or committees of the participating companies shall take the necessary measures for these companies.

The (Matching Share Plan) MSP is program under which the participant can receive HT shares on expiry of a four-year period. The participant is obliged to invest an amount from 10% to a maximum 33.33% of the paid out gross annual variable salary to HT shares. The participant is granted one additional HT share for each share, under condition that he/she held them continuously for a period of at least four years from the date of purchase (vesting period)..

As a part of Lead to Win Program 2015, Share Matching Plan was introduced for managers in Managements Groups MG1, MG2 and MG3. The share matching plan is a long-term voluntary compensation instrument, which makes the executives co-owners of the DT and enables them to benefit from the success of the DT share. The amount of the voluntary personal investment is between 10% and a third of the gross payment amount of the 2014 Short Term Incentive payment in 2015. The term of the 2015 SMP shall cover the period from July 1, 2015 to June 30, 2019. The shares in DTAG purchased as part of the voluntary personal investment are locked for the entire period and labelled with a corresponding lock indicator. At the end of the plan term the plan participant will be granted DTAG shares free of charge. The ratio between the number of shares purchased as part of the voluntary personal investment and the number of matching shares will depend on the personal performance of the plan participant.

Employee services are recognized as expenses on a pro rata basis over the vesting period. The Group is measuring value of employee services, indirectly, by reference to the fair value of the equity instruments granted. The fair value of the equity instruments granted is measured at grant date by using observable market price.

34 Share-based and non share-based payment transactions (continued)

All gains and expenses resulting from changes of the related provisions for all LTIP plans recognized for employee services received during the year are shown in the following table:

	2015 HRK millions	2014 HRK millions
Expenses	(2)	(6)
	(2)	**(6)**

35 Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 4.8 million in 2015 (2014: HRK 4.2 million). Services rendered in 2015 and 2014 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes.

36 Events after reporting period

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