OT-Optima Telekom d.d., Zagreb

Unconsolidated Financial Statements
as of 31 December 2013
together with Independent Auditor's Report

Content

Responsibility for the unconsolidated financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which give a true and fair view of the state of affairs and results of OT-Optima Telekom d.d. ("Company") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company 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 unconsolidated financial statements.

In preparing these unconsolidated 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;
- the applicable accounting standards are followed, subject to any material departures disclosed and explained in the unconsolidated financial statements; and
- the unconsolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

Signed on behalf of the Management Board:

Matija Martić	Goran Jovičić	Jadranka Surućić
President of the Management Board	Member of the Management Board	Member of the Management Board

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

OT-Optima Telekom d.d.
ZAGREB

Republic of Croatia
Zagreb, 25 March 2014

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Independent auditor's report

To the owners of OT-Optima Telekom d.d. Zagreb:

We have audited the accompanying unconsolidated financial statements of OT-Optima Telekom d.d., Zagreb ("the Company"), which comprise the unconsolidated statement of financial position as of 31 December 2013, and the related unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Independent Auditor's Report (continued)

Emphasis of matter

Going concern

The accompanying financial statements are prepared under the going-concern assumption. We draw attention to Note 1 to the unconsolidated financial statements discussing the considerations of the Management Board concerning the preparation of unconsolidated financial statements under the going-concern assumption.

As presented in Note 1, the Company reported a loss of HRK 40,124 thousand for the year ended 31 December 2013 and a negative equity in the amount of HRK 602,676 thousand at 31 December 2013.

In 2013, because of over indebtedness, the Company was not able to secure additional funds required for timely settlement of the bond coupon that matured. Pursuant to the Act on Financial Operations and Pre-Bankruptcy Settlement (OG 108/2012 and 11/2012) the Management Board of the Company has initiated pre-bankruptcy settlement for the purpose of operational and financial restructuring. The implementation of the financial and operational restructuring plan should support the Company to be liquid and solvent in the next period. The Management of the Company intends to implement a set of operational restructuring measures aimed at increasing the budgeted and actual margins in all the business segments (residential, customers, business customers and similar) and reducing the business support process costs (monitoring expenditure and cost reasonableness, revision of the existing contracts with vendors and similar).

The Management plans for the financial restructuring are in progress, in line with the plan adopted on 5 November 2013. The financial restructuring process consists of debt-to-equity conversion, reprogramming of loan debt over a longer repayment period and at a more favourable interest rate, write-off of certain interest liabilities. By ensuring a longer repayment period, provided further growth in the revenue and profitability of the Company, the Company would be able to continue in business and settle its liabilities in accordance with the agreed repayment dates. The final adoption of the restructuring plan is contingent upon the decision of the Croatian Market Competition Agency about the concentration arising from the acquisition of control over Optima telekom d.d. by Hrvatski telekom d.d.

The unconsolidated financial statements have been prepared on the assumption that the Company will continue as going concern for the foreseeable future which implies the realization of assets and settlement of liabilities in normal course of business. The unconsolidated financial statements do not include any adjustments that might result from the outcome of the uncertainty. Our opinion is not modified in respect of this matter.

Consolidated financial statements

We draw attention to the fact that the consolidated financial statements for OT-Optima telekom d.d. and the subsidiaries managed by OT-Optima telekom d.d., prepared in accordance with International Financial Reporting Standards as adopted by the European Union, have been issued separately. In the accompanying unconsolidated financial statements investments in subsidiaries are valued at cost. For a better understanding of the Group as a whole, users should read the consolidated financial statements together with these financial statements. Our opinion is not modified in respect of this matter.

Deloitte d.o.o.

Branislav Vrtačnik, President of Management Board and certified auditor
Zagreb, 25 March 2014

Unconsolidated statement of comprehensive income

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

	Notes	2013	2012
Sales	4	504,069	550,644
Other operating income	5	9,162	12,403
		513,231	**563,047**
Interconnection fee expenses		(176,483)	(239,452)
Rent of telecommunication equipment		(45,420)	(47,572)
Customer connection related expenses		(21,939)	(23,418)
Staff costs	6	(40,247)	(37,657)
Depreciation and amortization	7	(74,407)	(54,570)
Value adjustments of current and non-current assets	8	(12,333)	(46,216)
Provisions for jubilee awards and retirement benefits		(1,784)	(1,744)
Net gain from sale of assets and equipment		-	67
Other operating expenses	9	(130,461)	(134,336)
		(503,074)	**(584,898)**
Financial income	10	8,282	6,951
Financial expenses	11	(58,563)	(81,445)
		(50,281)	**(74,494)**
LOSS BEFORE TAX		**(40,124)**	**(96,345)**
Income tax	12	-	-
LOSS FOR THE YEAR		**(40,124)**	**(96,345)**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(40,124)**	**(96,345)**
Loss per share (HRK)	22	(14.23)	(34.16)

The accompanying notes form an integral part of these unconsolidated financial statements,

Signed on behalf of the Company on 25 March 2014:

Matija Martić	Goran Jovičić	Jadranka Suručić
President of the Management Board	Member of the Management Board	Member of the Management Board

Unconsolidated statement of financial position

As of 31 December 2013

(All amounts are expressed in thousands of kunas)

	Notes	2013	2012
ASSETS			
Non-current assets			
Intangible assets	13	51,432	20,869
Tangible assets	14	342,121	361,453
Other non-current assets	15	23,298	28,539
Total non-current assets		**416,851**	**410,861**
Current assets			
Inventories	16	1,344	2,438
Trade receivables	17	85,193	79,395
Receivables from the state and other institutions	18	127	305
Given loans and deposits	19	1,248	588
Prepayments for services and inventory		5,962	646
Other receivables		462	492
Prepaid expenses and accrued income	20	38,050	50,117
Cash and cash equivalents	21	67,873	1,748
Total current assets		**200,259**	**135,729**
TOTAL ASSETS		**617,110**	**546,590**

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

Signed on behalf of the Company on 25 March 2014:

Matija Martić	Goran Jovičić	Jadranka Suručić
President of the Management Board	Member of the Management Board	Member of the Management Board

(All amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	2013	2012
Equity			
Subscribed capital	22	28,201	28,201
Capital gain	22	194,354	194,354
Accumulated loss		(825,231)	(785,107)
		(602,676)	**(562,552)**
Long term borrowings	23	3,315	-
Total long term liabilities		**3,315**	**-**
Short term borrowings	23	609,417	567,620
Issued bonds	24	293,688	269,414
Trade payables to related parties	28	-	7,897
Trade payables	25	270,717	182,265
Provision for jubilee awards and retirement benefits		1,784	1,744
Accrued expenses and deferred income	27	26,960	65,378
Other current liabilities	26	13,905	14,824
Total short term liabilities		**1,216,471**	**1,109,142**
TOTAL EQUITY AND LIABILITIES		**617,110**	**546,590**

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

Signed on behalf of the Company on 25 March 2014:

Matija Martić
President of the Management Board

Goran Jovičić
Member of the Management Board

Jadranka Suručić
Member of the Management Board

Unconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

	Subscribed capital	Capital gain	Accumulated loss	Total
Balance as of 01 January 2012	**28,201**	**194,354**	**(688,762)**	**(466,207)**
Loss for the year	-	-	(96,345)	(96,345)
Total comprehensive loss for the year	-	-	*(96,345)*	*(96,345)*
Balance as of 31 December 2012	**28,201**	**194,354**	**(785,107)**	**(562,552)**
Loss for the year	-	-	**(40,124)**	**(40,124)**
Total comprehensive loss for the year	-	-	*(40,124)*	*(40,124)*
Balance as of 31 December 2013	**28,201**	**194,354**	**(825,231)**	**(602,676)**

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

Signed on behalf of the Company on 25 March 2014:

Matija Martić
President of the Management Board

Goran Jovičić
Member of the Management Board

Jadranka Suručić
Member of the Management Board

Unconsolidated statement of cash flows

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

	Notes	2013	2012
Operating activities			
Total comprehensive loss for the year		(40,124)	(96,345)
Adjustments for:			
Depreciation and amortisation		74,407	54,570
Increase/ (decrease) in provisions for jubilee awards and retirement benefits		40	(355)
Impairment of loans and deposits		5,145	46,216
Impairment of trade receivables		(3,055)	(7,030)
Net book value of disposed assets		6,580	3,056
Operating result before working capital changes		42,993	112
Decrease in inventories		1,094	149
(Increase) / decrease in trade receivables		(5,816)	2,578
(Increase) / decrease in other receivables		(5,768)	222
Decrease / (increase) in prepaid expenses and accrued income		12,067	10,931
Increase / (decrease) in trade payables		88,452	90,730
Increase / (decrease) in liabilities to related companies		(7,897)	4,930
Increase / (decrease) in accrued expenses and deferred income		(38,418)	19,050
Increase in other short-term liabilities		23,354	1,141
Net cash generated from in operating activities		**110,061**	**129,843**
Cash flows from investing activities			
Purchases of tangible and intangible assets		**(92,217)**	**(53,288)**
Net cash used in investing activities		**(92,217)**	**(53,288)**

(All amounts are expressed in thousands of kunas)

	Notes	2013	2012
Cash flows from financing activities			
Decrease/(increase) in loans and non-current receivables		3,169	(2,076)
Increase/(decrease) in borrowings		45,112	(74,103)
Net cash generated / (used) in from financing activities		**48,281**	**(76,179)**
Net increase in cash and cash equivalents		**66,125**	**376**
Cash and cash equivalents at 1 January		1,748	1,372
Cash and cash equivalents at 31 December	21	**67,873**	**1,748**

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

Signed on behalf of the Company on 19 March 2014:

Matija Martić
President of the Management Board

Goran Jovičić
Member of the Management Board

Jadranka Suručić
Member of the Management Board

(All amounts are expressed in thousands of kunas)

1. GENERAL

History and incorporation

The company, OT-Optima Telekom d.o.o. (the "Company"), was founded in 1994 under the name Syskey d.o.o. and on 22 April 2004 changed its name to OT-Optima Telekom d.o.o. as well as its principal business activity to telecommunication service provider. The Company changes its legal status from limited liability company to shareholding company during July 2007. Croatian Telecommunication Agency Council gave the right on 19 November 2004 to the Company to provide telecommunication services for period of 30 years.

Principal activities

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

On 6 July 2006 OT-Optima Telekom d.d. became the sole owner of Optima Grupa Holding d.o.o., a company renamed to Optima Direct d.o.o. on 23 September 2008. The principal activity of Optima Direct d.o.o. comprises trade and provision of various services mostly from within the scope of the telecom industry. In August 2008 the Company increased the share capital of Optima Direct d.o.o. by HRK 15,888 thousand as a result of debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest.
The Company set up as sole owner Optima Telekom d.o.o., Koper, Slovenia in 2007.

On 16 August 2011 the Company established, as the sole owner, Optima Telekom d.o.o., a real estate management and consultancy company which did not operate during the reporting period and is still dormant.

Staff

As of 31 December 2013, the Company had 208 employees (2012: 208 employees),

Governance and management

In 2013 and 2012 members of the Management Board of the Parent Company were as follows:

Matija Martić	President
Goran Jovičić	Member
Jadranka Suručić	Member

In 2013 and 2012 members of the Supervisory Board of the Parent Company were as follows:

Nada Martić	President
Ivan Martić	Deputy president
Zrinka Vuković Berić	Member
Duško Grabovac	Member

The ownership structure of the Company is disclosed in the Note 22.

1. GENERAL (continued)

Going concern assumption

As a result of the economic crisis in the period 2010-2012 OT-Optima telekom d.d. ("the Company") faced substantial problems in its business and liquidity.

In that period, the Company became illiquid and insolvent due to overindebtedness and reported negative net results because the profit margins it achieved were not sufficient to cover the current level of indebtedness.

The Company reported a loss of HRK 40,124 thousand for the year ended 31 December 2013 (2012: a loss in the amount of HRK 96,345 thousand) and a negative equity in the amount of HRK 602,676 thousand at 31 December 2013 (HRK 562,522 thousand at 31 December 2011). Furthermore, the indications discussed in Note 29 show that the Company is overindebted. These matters raise substantial doubt as to the ability of the Company to continue as a going concern.

In 2013, because of overindebtedness, the Company was not able to secure additional funds required for timely settlement of the bond coupon that matured in February 2013. Pursuant to the Act on Financial Operations and Pre-Bankruptcy Settlement (OG 108/2012 and 11/2012) the Management Board of the Company has initiated pre-bankruptcy settlement for the purpose of operational and financial restructuring. The implementation of the financial and operational restructuring plan should make the Company liquid and solvent in the next period. The Management Board of the Company intends to implement a set of operational restructuring measures aimed at increasing the budgeted and actual margins in all of its operational segments (individuals, business customers, etc.) and reducing business process support costs (monitoring consumption and cost justification, reviewing current supplier contracts, and similar).

The Management plans for the financial restructuring are in progress, in line with the plan adopted on 5 November 2013 with 94.06 percent of the creditors votes. The financial restructuring process consists of debt-to-equity conversion, reprogramming of loan debt over a longer repayment period and at a more favourable interest rate, write-off of certain interest liabilities. By ensuring a longer repayment period, provided further growth in the revenue and profitability of the Company, the Company would be able to continue in business and settle its liabilities in accordance with the agreed repayment dates. The final adoption of the restructuring plan is contingent upon the decision of the Croatian Market Competition Agency about the concentration arising from the acquisition of control over Optima telekom d.d. by Hrvatski telekom d.d.

The implementation of the planned financial and operational restructuring measures would enable the Company to increase its revenue and EBITDA margin, as a result of which the Company would be able to generate positive business results. In addition, the lower level of debt would ensure positive cash flows on an annual basis and enable the Company regular i.e. timely servicing of the amounts owed to its creditors and supplies.

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

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current period:

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"**
  - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of financial statements"** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies. .

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

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS in full):

3. **IFRS 9 "Financial Instruments" and subsequent amendments** (effective date was not yet determined),
4. **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
5. **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
6. **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
7. **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
8. **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The Entity anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (the "IFRS").

Basis of presentation

The financial statements have been prepared on the historical cost basis, except for the valuation of certain non-current assets and financial instruments, which are valued at fair value, and in accordance with International Financial Reporting Standards adopted by the EU and Croatian law.

These financial statements represent the general-purpose separate financial statements of the Company. The financial statements were prepared for the reporting period from 1 January to 31 December 2013 in compliance with IFRS, adopted by the EU.

These statutory financial statements are prepared for the purpose of compliance with legal requirements. The Company is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfil the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Company. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.

Reporting currency

The financial statements of the Company have been prepared in Croatian Kuna (HRK), At 31 December 2013, the effective exchange rate for EUR 1 and USD 1 was HRK 7.637643 and HRK 5.549000 respectively (31 December 2012: HRK 7.545624 and HRK 5.726794 respectively),

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets includes right to provide telecommunication services, license and concession for operate different types on the telecommunication services and are carried at cost less accumulated amortisation and any accumulated impairment loss. The useful life of the right, concession and licenses to operate telecommunication services are determined based on the underlying agreements and are amortized on a straight line basis over the period from the moment when it has been approved by regulatory body until the end of the initial right, concession or license term. No renewal periods are considered in the determination of useful life.

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

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

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

Assets recognised under those contracts are amoritised over the period of the underlying agreement..

Other intangible assets refer to software license and it is carried at cost less accumulated amortisation and any accumulated impairment loss. The useful life of software is 5 years.

Property, plant and equipment

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

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

	2013	2012
Buildings	40 years	40 years
Vehicles	5 years	5 years
Plant and equipment	5 to 20 years	5 to 20 years
Office equipment	4 years	4 years

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

Expenditures incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred.

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

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

Impairment of PP&E and intangible assets

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

At each date of financial position, the Company reviews the carrying amounts of their PP&E and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of PP&E and intangible assets (continued)

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash with bank and on hand. Cash equivalents comprise demand deposits and term deposits with maturities of up to three months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance and operating leases

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

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as an expense, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other receivables

Trade and other receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Foreign currencies

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

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

Retirement benefits and jubilee awards

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

Current tax

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

Deferred tax

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

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources 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 balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provisions for restructuring costs are recognized when the Company has a detailed formal plan for the restructuring that has been communicated to parties concerned.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into as 'financial assets at fair value through profit or loss' (FTPL), 'investments held to maturity' (HTM), 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL)

A financial asset is classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 29.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale financial assets (AFS)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on AFS equity instruments are recognised in statement of comprehensive income when the Company's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset, Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Financial liabilities at fair value through profit or loss (FVTPL) (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the companying is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings and bonds, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

Derecognition of financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent liabilities

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. Revenues for all services are recognised net of VAT and discounts when the services are provided.

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

Revenue from carrier services includes interconnection services for domestic and international carriers.
Revenue from internet and date services included revenue from Internet subscription, ADSL traffic and fixed line access.

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

Interest income is accrued on a time basis, by reference to the actual yield on the underlying asset.

Interconnection fee expenses

Interconnection fee expenses for using telecommunication infrastructure of other telecommunication providers are recognized in the period they relate to.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

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

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

The Company has only one segment and is not able to differ property, plant and equipment to the services it provides. The same equipment is used for transfer of voice and data. Management assesses the performance on the level of entire Company. The Company operates on Croatian market which is by the Management is considered as one reporting segment.

Subsequent events

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical judgments in applying accounting policies

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

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

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

Estimates used in determining the jubilee awards retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Measurement provision for jubilee awards is based on a method that uses various parameters, such as the expected discount rate, rate of compensation increase, rate of employee turnover and salary increase. The Company reviews key variables in determining the value of provisions for jubilee awards and retirement benefits on the annual basis including the adequacy of the discount rate used in determining the present value of estimated future cash flows and also assessing the adequacy of the fluctuation rates used in calculating provisions. Discount rate used in calculation amounts to 5.37% for 2013 (2012: 4.60%)

Consequences of certain legal actions

The Company is involved in legal actions which have arisen from the regular course of its operations-ased on the estimates of the probable outcome of legal actions the provisions are assessed and recognised on a consistent basis.

(All amounts are expressed in thousands of kunas)

4. SALES

	2013	2012
Carried pre select services revenue	229,946	274,600
Interconnection revenue	110,252	140,721
Internet services	100,805	86,306
Data services	32,328	24,656
Multimedia services	23,989	17,449
Rent and sale of equipment	4,576	3,131
Other sales revenue	2,173	3,781
	504,069	**550,644**

5. OTHER OPERATING INCOME

	2013	2012
Income from penalties charged	1,788	4,064
Income from collection of past due receivables	1,493	3,021
Income from leases-payment system	1,105	1,357
Income from compensation in kind	371	385
Other income	4,405	3,576
	9,162	**12,403**

(All amounts are expressed in thousands of kunas)

6. STAFF COSTS

	2013	2012
Net salaries	21,027	19,481
Taxes and contributions	17,524	16,634
Reimbursement of costs to employees	1,696	1,542
	40,247	**37,657**
Number of staff as of 31 December	208	208

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

Other employee benefits comprise benefits payable under the Collective Agreements, such as vacation bonus, jubilee awards, Christmas bonus, various supports, and similar.

7. DEPRECIATION AND AMORTISATION

	2013	2012
Depreciation	48,658	48,761
Amortisation	25,749	5,809
	74,407	**54,570**

8. VALUE ADJUSTMENT OF CURRENT AND NON-CURRENT ASSETS

	2013	2012
Value adjustment of non-current assets	6,350	40,633
Value adjustment of current assets	5,983	5,583
	12,333	**46,216**

(All amounts are expressed in thousands of kunas)

9. OTHER OPERATING EXPENSES

	2013	2012
Cost of connection pairs	61,343	61,367
Maintenance expenses	17,112	17,700
Residential sales services	13,334	17,436
Utilities	8,442	8,370
Invoicing expenses	5,450	7,338
Cost of intellectual services	4,272	1,797
Receivables write off	3,197	1
Bank and financial institutions charges	3,121	2,868
Marketing expenses	2,028	6,668
Cost of goods and services sold	1,866	661
Cost of material	1,778	1,995
Representation	1,231	1,484
Taxes and contributions irrespective of the result	1,231	1,094
Insurance premium	1,008	1,171
Sponsorships	515	571
Subsequently operating costs	-	21
Other expenses	4,533	3,794
	130,461	**134,336**

10. FINANCIAL INCOME

	2013	2012
Income from interest and fees	7,293	5,881
Income from interest from related companies	278	301
Foreign exchange gains	711	769
	8,282	**6,951**

11. FINANCIAL EXPENSES

	2013	2012
Interest expense and fees	50,844	78,917
Foreign exchange losses	7,719	2,528
	58,563	**81,445**

Interest expenses refer to the interest expense from borrowings and issued bonds and to penalty interest expense from transactions with suppliers.

(All amounts are expressed in thousands of kunas)

12. INCOME TAX EXPENSE

The Company is subject to income tax, according to the laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses for the period, increased by tax non-deductible expenses. The income tax rate is 20%.

The Company Optima Telekom d.d. had no income tax liability for year 2013 because it incurred losses from operations.

Tax losses available for forward are presented below:

Year of tax loss	Amount	Year of expiry
2009	110,799	2014
2010	64,157	2015
2011	67,737	2016
2012	48,201	2017
2013	33,934	2018
	324,828	

In accordance with local regulations, the Tax Authority may at any time inspect the books of any company inside the Company and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances that may give rise to a potential material liability in this respect.

Deferred tax assets on tax losses was not recognised due to uncertainty of future taxable profits in relevant periods.

(All amounts are expressed in thousands of kunas)

13. INTANGIBLE ASSETS

	Concessions and rights	Software	Intangible assets under construction	Total intangible assets
COST				
At 31 December 2011	**8,188**	**78,602**	-	**86,790**
Additions	-	-	1,942	1,942
Transfer from assets in progress	-	1,942	(1,942)	-
At 31 December 2012	**8,188**	**80,544**	-	**88,732**
Additions	54,175	-	2,137	56,311
Transfer from assets in progress	-	2,137	(2,137)	-
At 31 December 2013	**62,362**	**82,682**		**145,044**
ACCUMULATED AMORTISATION				
At 31 December 2011	**1,658**	**60,395**	-	**62,053**
Charge for the year	274	5,536	-	5,810
At 31 December 2012	**1,932**	**65,931**	-	**67,863**
Charge for the year	21,327	4,422	-	25,749
At 31 December 2013	**23,258**	**70,353**	-	**93,612**
NET BOOK VALUE				
At 31 December 2012	**6,256**	**14,613**	-	**20,869**
At 31 December 2013	**39,103**	**12,329**	-	**51,432**

The intangible assets of the Company include the right to operate telecommunication services (concession and rights) with the carrying value HRK 39,106 thousand as of 31 December 2013 (2012: HRK 6,257 thousand). The right has been approved to the Company by the Croatian agency for Telecommunication on 19 November 2004.

As of 31 December 2013 cost value of intangible assets with restricted ownership as a result of collateralization amounts to HRK 74,570 thousand (2012: HRK 74,570 thousand).

(All amounts are expressed in thousands of kunas)

14. TANGIBLE ASSETS

	Land	Buildings	Plant and equipment	Vehicles and tools	Work of Arts	Assets in progress	Leasehold improvements	Total
COST								
At 31 December 2011,	**23**	**16,839**	**536,742**	**4,120**	**47**	**5,229**	**3,984**	**566,984**
Additions	-	685	8,399	689	-	41,494	79	51,346
Transfer from assets in progress	-	575	36,432	244	-	(37,635)	383	-
Disposals	-	-	(3,271)	(47)	-	-	-	(3,319)
Na dan 31, prosinca 2012,	**23**	**18,099**	**578,302**	**5,006**	**47**	**9,088**	**4,446**	**615,011**
Additions	-	-	6,904	816	-	28,059	127	35,906
Transfer from assets in progress	-	-	28,434	-	-	(28,506)	72	-
Disposals	-	-	(9,639)	-	-	-	-	(9,639)
Na dan 31, prosinca 2013,	**23**	**18,099**	**604,001**	**5,822**	**47**	**8,641**	**4,645**	**641,278**
ACCUMULATED DEPRECIATION								
At 31 December 2011	**-**	**2,629**	**195,104**	**3,806**	**-**	**-**	**3,521**	**205,060**
Charge for the year	-	436	47,768	326	-	-	231	48,761
Disposals	-	-	(216)	(47)	-	-	-	(263)
At 31 December 2012	**-**	**3,065**	**242,656**	**4,085**	**-**	**-**	**3,752**	**253,558**
Charge for the year	-	453	47,654	299	-	-	252	48,658
Disposals	-	-	(3,059)	-	-	-	-	(3,059)
At 31 December 2013	**-**	**3,518**	**287,251**	**4,384**	**-**	**-**	**4,004**	**299,157**
NET BOOK VALUE								
At 31 December 2012	**23**	**15,034**	**335,646**	**921**	**47**	**9,088**	**694**	**361,453**
At 31 December 2013	**23**	**14,581**	**316,750**	**1,438**	**47**	**8,641**	**641**	**342,121**

As of 31 December 2013, cost value of property, plant and equipment with restricted ownership as a result of collateralization amounts to HRK 467,969 thousand (2012: HRK 478,177 thousand).

(All amounts are expressed in thousands of kunas)

15. OTHER NON CURRENT ASSETS

	2013	2012
Loan to the majority company owner	5,717	5,279
Loan to third party companies	36,988	35,355
Long term deposit	3,484	3,493
	46,189	**44,127**
Impairment of loans and deposits	(42,705)	(40,634)
	3,484	**3,493**
Loans to related companies	4,753	5,709
Loans and deposits	**8,237**	**9,202**
Investments in related companies	15,026	19,302
Participating interests	35	35
	23,298	**28,539**

On 27 February 2007, before changing incorporation (change of its legal status to share capital company) the Company has approved a loan to Mr. Matija Martić in the total amount of HRK 3,200 thousand. The interest rate of the loan is variable and is periodically adjusted with average interest rate on loans received from banks (Zagrebačka banka d.d. and Hypo Alpe-Adria-Bank d.d.). The annual interest rate is 8.5%. The loan matures on 27 February 2022. The loan collateral are blank promissory notes. Purpose of the loan is purchase of business share in the company OT-Optima Telekom d.d.
At 31 December 2012 the Company recognised impairment allowance on the total balance owed by Matija Matić, whereas only the regular interest receivable on the loan was provided against in 2013. As the loans had not been repaid, the accrued interest due was also provided against in 2013.

In 2007 the Company has approved three long term loans to Optima OSN Inženjering d.o.o., Rijeka in the following amounts:

- HRK 15,000 thousand with maturity as at 31 October 2010 with the interest rate of 11.5% per annum
- HRK 5,000 thousand with maturity as at 31 October 2010 with the interest rate of 11.5% per annum
- HRK 2,000 thousand with maturity as at 13 August 2010 with the interest rate of 11.5% per annum

The loans were approved for the purpose of development of IP Centrex service which is planned to be used by the Company. The collaterals of loans are two debentures in the amount of the loan approved increased for the interests, fees and expenses as well as e two blank promissory notes. The Management of the Company has agreed annexes to the loans agreements for the extension of the maturity date to 30 April 2013, 13 August 2012 and 13 August 2014 respectively.

By annexes to all the three loan agreements, the interest rates were defined to be accrued and added to the principal on a monthly basis.

(All amounts are expressed in thousands of kunas)

15. OTHER NON CURRENT ASSETS (CONTINUED)

On 21 January 2008 Optima OSN- Inženjering d.o.o. repaid a portion of HRK 1,780 thousand of the loan debt with a nominal amount of HRK 5,000 thousand. Thus, the new principal amount was HRK 3,220 thousand.

The balance outstanding at 31 December 2013 amounts to HRK 35,355 thousand and comprises the following:

- HRK 27,304 thousand – principal of HRK 15,000 thousand and accrued interest in the amount of HRK 12,304 thousand
- HRK 5,920 thousand – principal of HRK 3,220 thousand and accrued interest of HRK 2,700 thousand
- HRK 3,764 thousand– principal of HRK 2,000 thousand and accrued interest of HRK 1,358 thousand.

The Management Board does not consider the receivables from Optima OSN Inženjering d.o.o., Rijeka to be recoverable, which is why they were fully impaired at 31 December 2012. Interest amount related to mentioned loans are fully impaired in 2013..

Movements in the impairment allowance on loans and deposits

Opening balance at 1 January 2013	**40,633**	**1,573**
Written-off during the year	-	(1,573)
Additional allowances recognised (note 8)	2,072	40,633
Closing balance at 31 December 2013	**42,705**	**40,633**

Participating interests comprise interests in Pevec d.d. acquired in exchange for the company's outstanding debt to the Company.

Investments in related companies

On 6 July 2006 OT-Optima Telekom d.d. became the sole owner of Optima Grupa Holding d.o.o., a company renamed to Optima Direct d.o.o. on 23 September 2008. The principal activity of Optima Direct d.o.o. comprises trade and provision of various services mostly from within the scope of the telecom industry. In August 2008 the Company increased the share capital of Optima Direct d.o.o. by HRK 15,888 thousand as a result of debt-to-equity swap, the debt comprising the outstanding loan receivables and accrued interest.

During 2013 the Company performed impairment test on investment in Optima Direct d.o.o. and booked impairment loss in amount of HRK 4,276 thousand (note 8).

In 2007 the Company, as the sole owner, established Optima Telekom d.o.o., Koper, Slovenia. On 16 August 2011 the Company, as the sole owner, established Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., which did not operate during the reporting period i.e. which is currently dormant, Intragroup transactions are carried out under market terms and conditions.

Consolidated financial statements are prepared in accordance with International Financial Reporting Standards for OT-Optima Telekom d.d. and the subsidiaries managed by OT-Optima Telekom d.d. (the "Group") have also been published.

(All amounts are expressed in thousands of kunas)

16. INVENTORIES

	2013	2012
Telecommunication merchandise	1,344	2,438
	1,344	**2,438**

17. TRADE RECEIVABLES

	2013	2012
Domestic trade receivables	102,063	94,900
Foreign trade receivables	9,689	11,086
Interest receivables	52	2
Provision for bad debt	(26,611)	(26,593)
	85,193	**79,395**

	2013	2012
Trade receivables	111,752	**105,986**
Provision for bad debt	(26,611)	(26,593)
Net trade receivables	**85,141**	**79,393**

The net trade receivables do not include interest receivables for which maturity is expected within agreed terms.

Movement of provision for doubtful trade receivables:

	2013	2012
Beginning balance 01 January	26,593	26,466
Bad debt write-off	(1,603)	(2,436)
Collected during the period	(1,452)	(3,021)
Additionally provided	3,073	5,584
Closing balance 31 December	**26,611**	**26,593**

Ageing of trade receivables for the Company:

	2013	2012
Undue	49,299	49,287
up to 120 days	27,835	24,623
120 - 360 days	8,623	8,152
over 360 days	25,995	23,924
	111,752	**105,986**

(All amounts are expressed in thousands of kunas)

18. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	2013	2012
Other receivables from state and other institutions	127	305
	127	**305**

19. GIVEN LOANS AND DEPOSITS

	2013	2012
Deposits	1,248	588
	1,248	**588**

Current financial assets in 2013 and 2012 consist only of deposits.

20. PREPAID EXPENSES AND ACCRUED INCOME

	2013	2012
Deferred customer related expenses	23,610	32,868
Prepaid expenses for goods not received	14,440	16,452
Deferred loans origination fees	-	797
	38,050	**50,117**

Movement in prepaid expenses and accrued income:

	2013	2012
Beginning balance 1 January	50,117	61,048
Increase in prepaid expenses and accrued income	17,273	26,099
Expensed during the year	29,340	37,030
Closing balance 31 December	**38,050**	**50,117**

(All amounts are expressed in thousands of kunas)

21. CASH AND CASH EQUIVALENTS

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

	2013	2012
Bank balances	62,621	972
Foreign account balance	5,230	757
Cash in hand	22	19
	67,873	**1,748**

22. SUBSCRIBED CAPITAL

Majority owner of Company Matija Martić paid in additional capital of HRK 20 million at 24 August 2007. Subscribed capital of the Company has been increased from HRK 201 thousand to HRK 20,201 thousand. The Company has also changed its legal status and became shareholding company. Total number of ordinary shares was 2,020,070 with nominal value of HRK 10. Sole owner of the company remained Matija Martić.

The Company increased its subscribed capital through the initial public offer in November 2007. The Company issued additional 800,000 shares with nominal value of HRK 10. This increased number of shares to 2,820,070. The Company also achieved capital gain of HRK 194,354 thousand as difference between nominal amount and issued price. The shares started to trade on 7 January 2008 on Zagreb stock exchange. The owners of the previously issued bonds had a first right of buy on initial public offer.

Earnings per shares were as follows:

	2013	2012
Loss for the year	(40,124)	(96,345)
Number of shares	2,820,070	2,820,070
Loss per share	**(14.23)**	**(34.16)**

(All amounts are expressed in thousands of kunas)

22. SUBSCRIBED CAPITAL (CONTINUED)

Shareholders structure as of 31 December was as follows:

Shareholders capital	2013	%	2012	%
MARTIĆ MATIJA	18,596	65.94	18,596	65.94
	18,596	**65.94**	**18,596**	**65.94**
ZAGREBAČKA BANKA D.D./ZBIRNI SKRBNIČKI RAČUN ZA UNICREDIT BANK AUSTRIA AG	1,605	5.69	1,605	5.69
ZAGREBAČKA BANKA D.D./ZBIRNI SKRBNIČKI RAČUN ZAGREBAČKA BANKA D.D./DF	1,355	4.80	1,385	4.91
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ OBVEZNI MIROVINSKI FOND (1/1)	766	2.72	766	2.72
KONEČNY ZORAN (1/1)	471	1.67	-	-
ZAGREBAČKA BANKA D.D. (1/1)	428	1.52	428	1.52
ŽUVANIĆ ROLAND (1/1)	303	1.07	303	1.07
ČERNOŠEK KRUNOSLAV (1/1)	216	0.77	100	0.35
JOVIČIĆ GORAN (1/1)	202	0.72	202	0.72
PARČINA ANTE (1/1)	177	0.63	-	-
MARIĆ-BANJE JAKOV (1/1)	171	0.61	-	-
PBZ D.D./I - ZBIRNI SKRBNIČKI RAČUN	156	0.55	25	0.09
HRVATSKA POŠTANSKA BANKA D.D./ZBIRNI RAČUN ZA KLIJENTE BANKE	153	0.54	144	0.51
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ PROFIT DOBROVOLJNI MIROVINSKI FOND (1/1)	127	0.45	127	0.45
ČORAK LJERKA (1/1)	100	0.35	100	0.35
UJEVIĆ TOMISLAV (1/1)	76	0.27	-	-
STEPIĆ IVAN (1/1)	64	0.23	5	0.02
ZAJEC TOMISLAV (1/1)	60	0.21	-	-
MATIJAŠIĆ NADA (1/1)	55	0.20	28	0.10
LUKOVIĆ ŽELJKO (1/1)	50	0.18	-	-
JUGO ŽIGANTO KRISTINA (1/1)	49	0.17	-	-
TROJANOVIĆ ALEKSANDAR (1/1)	48	0.17	-	-
BLASLOV ŠIME (1/1)	47	0.17	-	-
BARAČEVIĆ VEDRAN (1/1)	45	0.16	22	0.08
KMETOVIĆ IVO (1/1)	43	0.15	43	0.15
	6,767	**23.99**	**5,283**	**18.73**
Small shareholders	**2,838**	**10.07**	**4,322**	**15.33**
	28,201	**100.00**	**28,201**	**100.00**

(All amounts are expressed in thousands of kunas)

23. LONG TERM AND SHORT TERM BORROWINGS

	2013	2012
Borrowings	559,714	553,592
Interest	53,018	14,028
Total borrowings	**612,732**	**567,620**
Short term portion of borrowings	**(609,417)**	**(567,620)**
Long term portion of borrowings	**3,315**	**-**

As of 31 December 2013, cost value of property, plant and equipment with restricted ownership as a result of collateralization amounts to HRK 467,969 thousand (2012: HRK 478,177 thousand) and intangible assets with restricted ownership as a result of collateralization amounts to HRK 74,570 thousand (2012: HRK 74,570 thousand).

On 11 February 2013 Zagrebačka banka blocked the Company's business account rendering thus its receivables due immediately. Pursuant to the provisions of the Act on Financial Operations and Pre-Bankruptcy Settlement (OG 108/2012 and 11/2012) the Company filed a motion to initiate pre-bankrupcy settlement. As all the outstanding debt of the Company will be rescheduled as part of the pre-bankruptcy settlement, all the Company's long-term borrowings as of 31 December 2012 were reclassified as short-term.

(All amounts are expressed in thousands of kunas)

23. LONG TERM AND SHORT TERM BORROWINGS (CONTINUED)

Bank **Loans**	Original currency In thousand	Loan amount in currency	Contracted maturity date	2013	2012
Hypo banka	EUR	6,750	01.09.2013	12,766	14,366
Zagrebačka banka	EUR	42,860	15.01.2014	327,349	323,405
Zagrebačka banka	EUR	20,325	15.01.2014	155,235	153,365
BKS banka	EUR	5,000	31.12.2013	-	22,761
Zagrebačka banka – payment of guarantee BKS	EUR	3,120	-	23,831	-
Kreditna banka Zagreb	HRK	1,800	05.05.2013	1,800	1,800
OTP banka	EUR	850	30.10.2012	5,902	6,414
Storm	HRK	6,000	01.07.2013	-	4,909
Zagrebačka banka – payment of guarantee STORM	HRK	7,856	-	7,856	-
Zagrebačka banka – payment of guarantee BAWAG	EUR	1,101	-	8,407	-
Leasing					
Hypo leasing Kroatien	EUR	115	01.07.2015	182	284
Hypo leasing Kroatien	EUR	780	01.06.2023	3,500	3,725
IT Tel	EUR	1,513	19.02.2015	-	4,497
IT Tel	EUR	1,298	01.02.2015	-	3,720
Huawei	EUR	2,770	01.08.2013	9,001	9,880

(All amounts are expressed in thousands of kunas)

23. LONG TERM AND SHORT TERM BORROWINGS (CONTINUED)

Leasings (continued)	Original currency in thousand	Loan amount in currency	Contracted maturity date	2013	2012
SG Leasing	EUR	168	11.12.2014	454	876
IBM	USD	778	01.06.2013	903	1,416
Kapsh Tis	HRK	3,229	15.11.2012	-	646
Computech	EUR	200	15.09.2012	-	1,145
Euroleasing	EUR	68	28.02.2015	216	383
Euroleasing	EUR	55	30.11.2014	312	-
Storm	HRK	6,000	01.07.2013	2,000	-
				559,714	**553,592**

The weighted average interest rate on long-term and short-term borrowings was 6.72% (2012: 6,82%)

(All amounts are expressed in thousands of kunas)

23. LONG TERM AND SHORT TERM BORROWINGS (CONTINUED)

	2013	2012
EUR	547,155	544,821
HRK	11,656	7,355
USD	903	1,416
Borrowings	**559,714**	**553,592**

On 31 December 2010, Zagrebačka banka d.d., Zagreb, approved to the Company a long-term loan with the principal amount of EUR 42,860 thousand. The interest is accrued quarterly at the rate of 3-month EURIBOR, plus a margin of 4.80 pp annually. The purpose of the loan facility is to settle the liabilities for fees on the guarantees issued as well as on the basis of guarantees and/or accrued interest on the following long-term and short-term loans: Agreement No. 3203453577 concluded on 29 August 2008; Agreement No. 3206986895 concluded on 14 February 2007; Agreement No. 3206986931 concluded on 10 July 2007; Agreement No. 3206986942, concluded on 3 September 2007; Agreement No. 3214906421, concluded on 2 December 2009; Agreement No. 3218711059, concluded on 28 January 2010. The ultimate repayment date was 15 January 2014.

The loan was repayable in 5 quarterly instalments of EUR 680 thousand each, which fall due as follows:

- the first instalment is due on the second anniversary of the agreement date; i.e. 31 December 2012;
- the second instalment is due on 31 March 2013;
- the third instalment is due on 30 June 2013;
- the fourth instalment is due on 30 September 2013;
- the fifth instalment is due on 31 December 2013.

The remaining loan amount of EUR 39,400,000 would be due on the ultimate repayment date.

The agreed collaterals comprise 20 blank accepted bills with the bill of exchange charges statement, a notarially authenticated debenture, a blank promissory note from Matija Martic with authorisation, lien established on the real estate and movable property of the Company, lien on the Company shares, insurance policies for real estate and movable property with restricted transferability.

(All amounts are expressed in thousands of kunas)

23. LONG TERM AND SHORT TERM BORROWINGS (CONTINUED)

On 31 December 2010 Zagrebačka banka d.d., Zagreb, approved to the Company a long-term loan with a principal of EUR 20,325 thousand. The loan is approved to settle the loan principal and a part of interest due under the agreement on a short-term loan in the amount of HRK 140,500 thousand, concluded on 29 August 2008. The loan was repayable on a one-off basis on the ultimate repayment date, which is 15 January 2014. The loan bears interest at a rate of 10 percent annually and is due on a one-off basis on the ultimate repayment date. The agreed collaterals comprise 20 blank accepted bills with the bill of exchange charge statement, a blank promissory note from Matija Martic with authorisation, lien established on the real estate and movable property of the Company, lien on the Company shares, insurance policies for real estate and movable property with restricted transferability.

The Company has committed, on a consolidation basis, to the following covenants over the term of the loans extended by Zagrebačka banka d.d. which were ultimately repayable in 2014:

	2011	**2012**	**2013**	**2014**
Minimum increased in total revenue	8%	13%	10%	6%
Minimum investment in tangible and intangible assets (% of total revenue)	6%	6%	6%	6%
Incremental EBITDA margin	32%	33%	34%	35%

In addition to the terms and conditions specified above, the Company has the obligation to notify of or provide a valid request in case of the following: capital expenditure, raising debt finance, liens, arm's-length transactions, profit or operation sharing agreements, investments, changes in the registered business, capital and Articles of Association/Statute, sale of assets, mergers and acquisitions, and ownership changes.

In 2013 Zagrebačka banka made payments under guarantees issued as follows:

- On 9 April 2013 HRK 7,856 thousand were paid under a guarantee issued to Storm
- On 22 April 2013 HRK 23,831 thousand were paid under a guarantee issued to BKS Bank.
- On 15 May 2013 HRK 8,407 thousand were paid under a guarantee issued to BAWAG Bank for the loans provided to IT TEL.

As stated in note 1 the Management plans for restructuring are in progress, in line with the plan adopted by creditors. The financial restructuring consists of debt-to-equity conversion, reprogramming of loan debt over a longer repayment period and at a more favourable interest rate, write-off of certain interest liabilities.

(All amounts are expressed in thousands of kunas)

24. ISSUED BONDS

	2013	2012
Nominal value	250,000	250,000
Deferred origination fees	-	(1,461)
Interest liabilities	43,688	20,875
	293,688	**269,414**

The Company issued bonds (OPTE-O-124 A) in nominal value of HRK 250 million on 5 February 2007.Bonds were issued on Zagreb Stock Exchange. Bonds have interest rate of 9.125% and their maturity date was 1 February 2014. The bonds have been issued with a price of 99.496%. The interest, which was due on 1 February 2013, was not settled, due to start of pre-bankruptcy settlement. The effective interest rate is 9.226%.

The following covenants need to be complied with.:

	2007	2008	2009	2010	2011	2012
Consolidate EBITDA Margin (%) >=	5.00%	10.00%	15.00%	20.00%	25.00%	25.00%
Unconsolidated EBITDA/ Unconsolidated interest >=	0.30	1.02	1.75	2.00	4.00	5.00
Consolidate EBITDA (in HRK million) >=	17	45	75	125	150	200
CAPEX/Sales revenue <=	0.75	0.65	0.5	0.5	0.4	0.35
Consolidate total liabilities/ Unconsolidated EBITDA <=	30	15	10	6	5	3
No dividend payments	Yes	Yes	Yes	Yes	Yes	Yes

As stated in note 1 the Management plans for restructuring are in progress, in line with the plan adopted by creditors. The financial restructuring consists of debt-to-equity conversion, reprogramming of loan debt over a longer repayment period and at a more favourable interest rate, write-off of certain interest liabilities.

(All amounts are expressed in thousands of kunas)

24. ISSUED BONDS (continued)

The Agent, Zagrebačka banka d.d., is testing compliance of all terms at the end of each year based on the audited unconsolidated financial statements. The Company also took obligation to increase the value of its subscribed capital until 30 June 2009 through issuing of new shares that cannot be less then HRK 150 million. The bond owners had a first right to buy shares during increase of share capital. The bond owners have a right to call for early collection of nominal value of bonds if the Company is not in compliance with the covenants and other requirements. As explained in note 22 during 2007 the Company has increased its share capital for over HRK 150 million and satisfied requirement in relation to increase of share capital. At 31 December 2012 and 2011 the Company was in breach of the covenants.

As per International Accounting Standard 1 (the "IAS 1"), Article 65, when the company breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The Company classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

In accordance with this requirement as per the IAS 1 the Company has reclassified its liabilities from issued bonds to short term liabilities.

25. TRADE PAYABLES

	2013	**2012**
Domestic trade payables	232,396	177,913
Foreign trade payables	5,199	4,352
Trade payables – services not yet billed	33,122	-
	270,717	**182,265**

Payables included in pre bankruptcy settlement in amount of HRK 167,277 are also included in trade payables, so the average credit period on purchases from suppliers was 215 days (2012: 134 days)

(All amounts are expressed in thousands of kunas)

26. OTHER CURRENT LIABILITIES

	2013	2012
Payables on advances	-	7,453
VAT payable	9,706	3,243
Net payroll	1,887	1,860
Taxes and contributions on salaries	1,486	1,470
Other state payables	754	603
Other payables	72	195
	13,905	**14,824**

27. ACCRUED EXPENSES AND DEFERRED INCOME

	2013	2012
Accrued interest	-	30,715
Deferred equipment lease income	12,500	13,500
Accrued expenses – outstanding invoices from domestic suppliers	6,634	11,797
Deferred income – notarial fees	3,757	5,986
Accrued expenses - outstanding invoices from foreign suppliers	4,069	3,380
	26,960	**65,378**

Movement in accrued expenses and deferred income:

	2013	2012
Beginning balance 1 January	65,378	46,328
Increase in accrued expenses and deferred income	-	75,345
Reversed during the year	(38,418)	(56,295)
Closing balance 31 December	**26,960**	**65,378**

(All amounts are presented in thousands of kunas)

28. RELATED PARTY TRANSACTIONS

Receivables and payables and income and expenses from related party transactions for the Company are provided in the table below:

	2013	2012
Income		
Optima telekom d.o.o.,, Koper	280	302
Optima Direct d.o..	2,216	2,562
Expenses		
Optima telekom d.o.o., Koper	1,531	1,517
Optima Direct d.o.o.	25,067	43,022
Receivables		
Optima telekom d.o.o., Koper	4,753	5,808
Optima Direct d.o.o.	7,094	-
Liabilities		
Optima Direct d.o.o.	-	7,897

In 2013 compensations paid to all Management Board members and Supervisory Board members amounted to HRK 5,830 thousand (2012: HRK 5,713 thousand) as follows:

- Total amount of compensations paid to Management Board members and Supervisory Board members in OT-Optima Telekom d.d. amounted to HRK 252 thousand (including compensation to the majority owner of the Company).

Compensations paid in 2013 to the majority owner of the Company Matija Martić were HRK 2,494 thousand (2012: HRK 2,408 thousand). Compensations relate to his work in the Company. Loans given to the majority owner of the Company amounted to HRK 0 thousand as at 31 December 2013 (2012: HRK 0 thousand) and are disclosed in Note 15 to the unconsolidated financial statements. The receivables from the majority owner in the amount of HRK 5,716 thousand were fully impaired at 31 December 2013.

Members of key management have signed the Statement of Independence, confirming that neither they nor their close family members have any equity interests in any of the companies,

The Members of the Management and Supervisory Boards who were at the same time the Company's shareholders at 31 December 2013 were as follows:

- Matija Martić, President of the Management Board, with a share of 65.94% comprising 1,850,569 ordinary shares;
- Goran Jovičić, Member of the Management Board, with a share of 0.71% comprising 20,200 ordinary shares.

(All amounts are presented in thousands of kunas)

29. FINANCIAL INSTRUMENTS

During the period, the Company used most of its financial instruments to finance its operations. Financial instruments include loans, bills of exchange, cash and liquid assets, and other various instruments, such as trade receivables and trade payables, arising directly from the ordinary activities.

Capital risk management

Net debt to equity ratio (Gearing ratio)

The Company manages its capital to ensure that the Company entities are able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 23 offset by cash and bank balances) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Note 22).

The Management Board reviews the capital structure of the Company on a quarterly basis. As part of this review, the Management Board considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at 31 December was as follows:

	2013	**2012**
Debt (long-term and short-term borrowings)	903,105	837,034
Cash and cash equivalents	(67,873)	(1,748)
Net debt	835,232	835,286
Equity	(598,398)	(562,552)
Net debt to equity ratio	**(139.58%)**	**(148.48%)**

Debt is defined as liability for long-term and short-term borrowings and for issued bonds. Equity includes all capital and reserves of the Company.

(All amounts are presented in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies

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

Categories of financial instruments

	2013	2012
Financial assets		
Loans	9,485	9,790
Cash and cash equivalents	67,873	1,748
Receivables	91,617	80,533
	168,975	**92,071**
Financial liabilities at amortized cost		
Issued bonds	293,688	269,414
Borrowings	612,732	567,620
Trade payables and other liabilities	299,635	265,048
	1,206,055	**1,102,082**

(All amounts are expressed in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2013	2012	2013	2012
	Liabilities		Assets	
EUR	604,672	583,907	23,524	21,374
USD	1,581	1,939	0	2
	606,253	**585,846**	**23,524**	**21,376**

Foreign currency sensitivity analysis

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

The following table details the Company's sensitivity to a 10 % increase in Croatian kuna against the relevant foreign currencies (2012: 10%), The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for percentage change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where HRK changes for above mentioned percentage against the relevant currency. For a reverse proportional change of HRK against the relevant currency, there would be an equal and opposite impact on the profit.

	2012	2012	2013	2012
	Liabilities		Assets	
EUR	60,467	58,391	2,352	2,137
USD	158	194	-	-
	60,625	**58,585**	**2,352**	**2,137**

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

29. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

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

The Company has long-term borrowings at variable interest rates in the amount of HRK 340,115 thousand which exposed it significantly to the interest rate risk. If the interest rates would increase 1%, the financial costs for the year ended 31 December 2013 would increase by HRK 3,401 thousand and the loss for the period would also be higher.

The issued bonds are valued at amortized cost and changes in the interest rate that could effect change in the fair value of the bonds are not effecting the carrying amount of issued bonds.

Other price risks

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted procedures which it applies in dealing with customers. The Company obtains sufficient collaterals, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables are followed on regular basis to determine their risk status and appropriate risk procedures are taken for trade receivables. The credit ratings of Company counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually. The Company transacts with a large number of customers from various industries and of various size, as well as with retail customers that have specific credit risk. The Company has developed procedures for each specific customer company to insure that credit risk is addressed in most appropriate way.

(All amounts are presented in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

In the table below the Company presented the balances of 6 major counterparties at the end of the reporting period.

Counterparty	Headquarters Country	2013	2012
Telekom Slovenije	Slovenia	4,528	4,579
Tele2	Croatia	2,456	451
VIPnet	Croatia	1,983	974
HT	Croatia	1,697	1,210
IT –TEL	Slovenia	403	73
CARnet	Croatia	273	238
		11,340	**7,525**

(All amounts are presented in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity rate tables and interest rate risks

The following tables detail the Company's remaining contractual maturity for its financial liabilities at the end of the period. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity date. The table includes both interest and principal cash flows.

	up to 1 year	1-5 years	Over 5 years	Total
2013				
Non-interest bearing	299,635	-	-	299,635
Interest bearing	903,105	1,803	1,512	906,420
	1,202,740	**1,803**	**1,512**	**1,206,055**
2012				
Non-interest bearing	265,048	-	-	265,048
Interest bearing	835,151	-	1,883	837,034
	1,100,199	**-**	**1,883**	**1,102,082**

Majority of non-interest bearing liabilities in 2013 represent trade payables in the total amount of HRK 270,717 thousand (2012: HRK 190,162 thousand).

Interest bearing liabilities are short-term and long term borrowings, finance leases as well as bonds issued.

(All amounts are expressed in thousands of kunas)

29. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The following tables detail the Company's remaining contractual maturity for its financial assets at the end of the period.

The tables have been drawn up based on the undiscounted cash flows of financial assets on maturity date

The table includes both interest and principal cash flows.

	up to 1 year	1-5 years	Over 5 years	Total
2013				
Non-interest bearing	159,490			159,490
Interest bearing	1,248	8,237	-	9,485
	160,738	**8,237**	**-**	**168,975**
2012				
Non-interest bearing	82,281	-	-	82,281
Interest bearing	9,791	-	-	9,790
	92,072	**-**	**-**	**92,071**

The balance of cash and cash equivalents is shown under non-interest bearing financial assets due to low interest rate of these assets.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 4 to 59 were approved by the Board of directors and authorized for issue.

Signed on behalf of the Company on 25 March 2014:

Matija Martić	Goran Jovičić	Jadranka Suručić
President of the Management Board	Member of the Management Board	Member of the Management Board