Croatian Telecom Inc.

Consolidated financial statements

31 December 2014

Contents

Responsibility for the consolidated financial statements

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

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 11 February 2015.

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

11 February 2015

On behalf of the Group,

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb CEO

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

Independent auditor's report

To the shareholders and Board of directors of Croatian Telecom Inc.

We have audited the accompanying consolidated financial statements of Croatian Telecom Inc. and its subsidiaries (the 'Group') which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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Emphasis of matter

Without qualifying our opinion, we draw attention to Notes 12 and 26 b) to the consolidated financial statements, which describe the uncertainty related to the ownership of distributive telecommunications infrastructure (DTI) of which the net book value recognised as assets by the Group as at 31 December 2014 is HRK 816 million. Efforts are being undertaken by the Group to obtain certain legal documents and registrations necessary to fully evidence the Group's ownership of these assets. The Group is defending a lawsuit claiming ownership of DTI in the city of Zagreb together with a demand for payment of HRK 390 million plus interest in respect of the Group's use of these assets in prior years. The Group has not recognised any adjustments to its assets and liabilities in respect of these matters due to the uncertainty as to their outcome and their impact on the financial statements.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 11 February 2015

John Mathias Gasparac
Member of the
Management Board

pwc
PricewaterhouseCoopers d.o.o.[3]
za reviziju i konzalting
Zagreb, Ulica kneza Lj. Posavskog 31

Tamara Maćašović
Certified Auditor

Consolidated statement of comprehensive income
For the year ended 31 December 2014

	Notes	2014 HRK millions	2013 HRK millions
Revenue	4	6,908	7,042
Other operating income		124	137
Merchandise, material and energy expenses		(1,165)	(1,009)
Service expenses	5	(782)	(889)
Employee benefits expenses	7	(1,128)	(1,114)
Work performed by the Group and capitalised		90	97
Depreciation, amortization and impairment of non-current assets	6	(1,411)	(1,366)
Other expenses	8	(1,413)	(1,266)
Operating profit	4	**1,223**	**1,632**
Finance income		36	47
Finance costs		(88)	(71)
Finance costs – net		(52)	(24)
Share of profit of investments accounted for using the equity method	13	14	21
Profit before income tax		**1,185**	**1,629**
Income tax expense	9	(47)	(188)
Profit for the year		**1,138**	**1,441**
Other comprehensive income for the year			
Items that will not be reclassified to comprehensive income			
Remeasurement of post employment benefit obligations		1	25
Items that may be subsequently reclassified to comprehensive income			
Change in value of available for sale financial assets		3	(0)
Other comprehensive income for the year, net of tax		**4**	**25**
Total comprehensive income for the year, net of tax		**1,142**	**1,466**

Consolidated statement of comprehensive income (continued)

For the year ended 31 December 2014

	Notes	2014 HRK millions	2013 HRK millions
Profit attributable to:			
Owners of the Company		1,143	1,441
Non-controlling interest		(5)	-
		1,138	1,441
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		1,147	1,466
Non-controlling interest		(5)	-
		1,142	1,466
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	10	HRK 13.95	HRK 17.60

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

Consolidated statement of financial position
As at 31 December 2014

	Notes	31 December 2014 HRK millions	31 December 2013 HRK millions
ASSETS			
Non-current assets			
Intangible assets	11	1,716	1,358
Property, plant and equipment	12	5,577	5,570
Investments accounted for using the equity method	13	395	398
Available-for-sale financial assets	14	289	196
Trade and other receivables	16	121	126
Bank deposits	17	51	21
Deferred income tax assets	9	51	60
Total non-current assets		**8,200**	**7,729**
Current assets			
Inventories	15	115	115
Trade and other receivables	16	1,240	1,251
Prepayments		264	149
Income tax prepayments		286	206
Available-for-sale financial assets	14	338	384
Bank deposits	17	1,200	947
Cash and cash equivalents	17	2,192	2,039
Total current assets		**5,635**	**5,091**
TOTAL ASSETS		**13,835**	**12,820**

Consolidated statement of financial position (continued)
As at 31 December 2014

	Notes	31 December 2014 HRK millions	31 December 2013 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	22	8,883	8,189
Legal reserves	23	409	409
Fair value reserves		2	(1)
Retained earnings	24	1,816	2,103
Total		**11,110**	**10,700**
Non-controlling interest		125	-
Total issued capital and reserves		**11,235**	**10,700**
Non-current liabilities			
Provisions for other liabilities and charges	21	62	62
Borrowings	30	380	-
Employee benefit obligations	20	9	70
Deferred income	19	26	4
Other liabilities	18	184	138
Deferred income tax liability	9	50	2
Total non-current liabilities		**711**	**276**
Current liabilities			
Trade payables and other liabilities	18	1,619	1,666
Provisions for other liabilities and charges	21	123	53
Deferred income	19	111	120
Borrowings	30	36	5
Total current liabilities		**1,889**	**1,844**
Total liabilities		**2,600**	**2,120**
TOTAL EQUITY AND LIABILITIES		**13,835**	**12,820**

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

Signed on behalf of the Group on 11 February 2015:

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

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb CEO

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

Consolidated statement of cash flows
For the year ended 31 December 2014

	Notes	2014 HRK millions	2013 HRK millions
Operating activities			
Profit before income tax		1,185	1,629
Depreciation, amortization and impairment of non-current assets	6	1,411	1,366
Interest income		(15)	(23)
Interest expense		57	37
Gain on disposal of assets		(3)	(50)
Share of profit in joint venture	13	(14)	(21)
Decrease in inventories		1	40
(Increase)/Decrease in receivables and prepayments		(79)	(157)
(Decrease)/Increase in payables and accruals		177	(71)
Decrease in employee benefit obligations	20	(62)	(53)
(Decrease)/Increase in provisions		35	(145)
Other non-cash items		3	1
Cash generated from operations		2,696	2,553
Interest paid		(50)	(37)
Income tax paid		(359)	(385)
Net cash flows from operating activities		**2,287**	**2,131**
Investing activities			
Purchase of non-current assets	3, 11, 12	(939)	(1,132)
Proceeds from sale of non-current assets		13	70
Purchase of available-for-sale financial assets and deposits		(1,114)	(757)
Proceeds from sale of available-for-sale financial assets and deposits		1,031	374
Purchase of secured deposits (reverse REPO arrangements)	17	(798)	(463)
Proceeds from secured deposits (reverse REPO arrangements)	17	550	385
Interest received		16	25
Dividend received	13	17	21
Acquisition of a subsidiary, net of cash acquired	3	7	-
Net cash flows used in investing activities		**(1,217)**	**(1,477)**
Financing activities			
Repayment of lease liability and borrowings		(22)	(7)
Repayment of content contracts		(164)	(77)
Dividends paid	24	(737)	(1,679)
Net cash flows used in financing activities		**(923)**	**(1,763)**
Net decrease in cash and cash equivalents		147	(1,109)
Cash and cash equivalents as at 1 January		2,039	3,146
Exchange gains on cash and cash equivalents		6	2
Cash and cash equivalents as at 31 December	17	**2,192**	**2,039**

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

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Issued share capital HRK millions (Note 22)	Legal reserves HRK millions (Note 23)	Fair value reserves HRK millions	Retained earnings HRK millions (Note 24)	Total HRK millions	Non-Controlling interest HRK millions	Total equity HRK millions
Balance as at 1 January 2013	8,189	409	(1)	2,302	10,899	-	10,899
Effect of changes in accounting policies	-	-	-	14	14	-	14
Profit for the year	-	-	-	1,441	1,441	-	1,441
Other comprehensive income for the year	-	-	-	25	25	-	25
Total comprehensive income for the year	-	-	-	1,466	1,466	-	1,466
Dividends paid to equity holders of the Company	-	-	-	(1,679)	(1,679)	-	(1,679)
Balance as at 31 December 2013	**8,189**	**409**	**(1)**	**2,103**	**10,700**	**-**	**10,700**
Profit for the year	-	-	-	1,143	1,143	(5)	1,138
Other comprehensive income for the year	-	-	3	1	4	-	4
Total comprehensive income for the year	-	-	3	1,144	1,147	(5)	1,142
Dividends paid to equity holders of the Company (Note 24)	-	-	-	(737)	(737)	-	(737)
Capital increase	694	-	-	(694)	-	-	-
Acquisition of subsidiary (Note 3)	-	-	-	-	-	130	130
Non-controlling interest arising on business combination	-	-	-	-	-	-	-
Balance as at 31 December 2014	**8,883**	**409**	**2**	**1,816**	**11,110**	**125**	**11,235**

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

1 Corporate information

Croatian Telecom Inc. (“HT” or the “Company”) is a joint stock company whose majority shareholder is CMobil B.V. with a 51% holding. (CMobil B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is T-Mobile Global Holding Nr. 2 GmbH.T-Mobile Global Holding Nr. 2 GmbH is 100% owned by Deutsche Telekom AG). Thus, Deutsche Telekom AG is ultimate controlling parent.

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

The total number of employees of the Group as at 31 December 2014 was 5,340 (31 December 2013: 5,830).

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

The consolidated financial statements for the financial year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Management Board on 11 February 2015. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets (Note 14), as disclosed in the accounting policies hereafter.

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

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

		Ownership interest	
Entity	Country of Business	31 December 2014	31 December 2013
Combis d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%
E-tours d.o.o.	Republic of Croatia	100%	100%
Optima Telekom d.d.	Republic of Croatia	19,11%	-

2.2. Changes in accounting policies and disclosures

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

a) Standards and interpretations effective and adopted

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU and are relevant to the Group's financial statements:

Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment did not have a significant impact on the Group's financial position or performance.

Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment did not have significant impact on the Group's financial position or performance.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. This standard did not have a significant impact on the Group's financial position or performance.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. This standard did not have a significant impact on the Group's financial position or performance.

2.2. Changes in accounting policies and disclosures (continued)

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group disclosed additional information pursuant from this standard in Note 13.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not relevant to the Group's financial statements.

b) Standards and interpretations issued but not yet effective:

A number of new standards and amendments to IFRS standards and IFRIC interpretations are effective for annual periods after 1 January 2014, and have not been applied in preparing these financial statements. None of these changes are expected to have a significant impact on the Group's financial statements, except the following set out below:

IFRIC 21, 'Levies' (effective for annual periods beginning on or after 1 January 2015)

This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised. The amendment did not have a significant impact on the Group's financial position or performance.

IFRS 15, 'Revenue from contracts with customers'. (effective for annual periods beginning on or after 1 January 2017)

This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

2.2. Changes in accounting policies and disclosures (continued)

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

IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018)

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, and for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. IFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The Group plans to adopt this new standard on the effective date as of and when endorsed by EU. The Group is still assessing the impact on this standard, but it is not expected to have a significant impact on the Group's financial statements.

There are no other IFRS standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group's financial statements.

2.3. Significant accounting judgments, estimates and assumptions

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

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings and ownership dispute over distributive telecommunication infrastructure that may result in significant outflow of economic resources or derecognition of related assets. The Group uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as more explained in Notes 21 and 26. Changes in these judgments could have a significant impact on the financial statements of the Group.

Impairment of non-financial assets

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

The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates given in Note 11. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details including carrying values and effects on the result of the period are given in Notes 11 and 12.

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

Useful lives of assets

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

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

	Increase/ decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2014	+10	100
	-10	(108)
Year ended 31 December 2013	+10	92
	-10	(87)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 11). Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the cash-generating units business and residential to materially exceed its recoverable amount. In case of cash-generating unit Optima Telekom, a reasonably possible change in certain key assumptions when viewed separately (such as decrease of revenue growth by 10%, increase of costs by 10% or change in capex and revenue ratio) with all other variables held constant, could result in an impairment charge up to HRK 49 million.

Intangible assets with an indefinite life

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

2.4. Summary of accounting policies

a) Operating profit

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

b) Business Combinations and Goodwill

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

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

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

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

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

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

2.4. Summary of accounting policies (continued)

c) Investment in associate

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

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

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

d) Investment in joint venture

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

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

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

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

2.4. Summary of accounting policies (continued)

e) Intangible assets

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

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

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

Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 900/1800 MHz frequency bands	13 years
Radio frequency spectrum in 800 MHz frequency band	11 – 12 years
Right of servitude for Distributive Telecommunication Infrastructure DTI)	30 years
Software, content and other assets	2 – 5 years
Customer base	7 years
Brand	Indefinite
Long-term customer contracts	1,5 - 7 years

Assets under construction are not amortised.

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

Impairment for goodwill is determined by assessing the recoverable amount, based on value in use estimations, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 11 for more details.

2.4. Summary of accounting policies (continued)

f) Property, plant and equipment

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

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

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

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

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

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

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

Land and assets under construction are not depreciated.

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

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

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

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

2.4. Summary of accounting policies (continued)

g) Impairment of assets

Impairment of non-financial assets

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

Impairment of trade receivables

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

Impairment of available-for-sale financial assets

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

2.4. Summary of accounting policies (continued)

h) Inventories

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

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

i) Receivables

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

j) Foreign currencies

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

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

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

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

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

2.4. Summary of accounting policies (continued)

k) Leases

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

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

l) Taxation

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

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

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

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

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

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Current and deferred taxes are charged or credited in other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period in other comprehensive income.

2.4. Summary of accounting policies (continued)

m) Employee benefit obligations

The Group provides other long-term employee benefits (Note 20). These benefits include retirement payments. The defined benefit obligation is calculated annually by independent actuary using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

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

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

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

n) Revenue recognition

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

Revenue from fixed telephony includes revenue from activation fees, monthly fees, calls placed by fixed line subscribers and revenue from additional services in fixed telephony. Revenue from activation fees is recognized on a straight-line basis throughout future periods depending on estimated life of a customer’s connection. Estimated life is 7 years in 2014 (2013: 6 years).

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

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

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

2.4. Summary of accounting policies (continued)

n) Revenue recognition (continued)

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

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

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

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

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

Revenue from ICT includes revenue from restructuring business processes, application management services, technology infrastructure and system maintenance and the design and development of complex IT systems to a client's specifications (design and build) and WEB hosting. For bundled offer arrangements, revenue recognition for each of the elements relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverable).

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

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

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

2.4. Summary of accounting policies (continued)

n) Revenue recognition (continued)

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

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

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

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

o) Cash and cash equivalents

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

p) Borrowings

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

Mandatory convertible loan (MCL) is classified as a long term financial liability and it is recognized at its nominal value which approximates its fair value.

2.4. Summary of accounting policies (continued)

q) Financial assets

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

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

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

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

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

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

r) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

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

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

2.4. Summary of accounting policies (continued)

s) Contingencies

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

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

t) Share-based payments

The cost of cash-settled and equity-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 32. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognized in the statement of comprehensive income.

u) Events after reporting period

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

v) Trade payables

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

w) Dividend distribution

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

x) Earnings per share

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

2.4. Summary of accounting policies (continued)

y) Reclassifications

In 2014, the Group has changed the presentation of certain positions within statement of cash flows. In order to reconcile the presentation of comparable period data with data presented in 2014, following positions in the financial statements for the year ended 31 December 2013 were reclassified:

- Statement of cash flows

Position	2013 As reported HRK millions	Impact on change HRK millions	2013 Restated HRK millions
Decrease in payables and accruals	146	(217)	(71)
Purchase of non-current assets	(1,426)	294	(1,132)
Repayment of content contracts	-	(77)	(77)

Stated changes were made in order to separately present cash outflows for content contract and regulatory licences purchases within cash flows from financial activities and due to changes in cash flow methodology with regards to purchases of non-current assets.

3 Business combinations

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

The Group's total share in Optima amounts to 19.11% as of 31 December 2014. Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima.

The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for participant in concentration with regard to management and control over Optima, among which is the implementation of so called ''Chinese wall'' between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima is limited to a period of four years starting as at 18 June 2014. Upon the expiration of the four-year period it is automatically terminated, without the possibility of extension. On the date of expiry of the third year, HT is required to start the process selling all its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well.

3 Business combinations (continued)

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

	Fair value recognised at acquisition HRK millions
Assets	
Intangible assets	292
Property, plant and equipment	337
Non-current financial assets	2
Inventories	2
Trade receivables	80
Prepaid expenses and other current assets	22
Cash and cash equivalents	35
	770
Liabilities	
Long-term liabilities	443
Trade payables	73
Other liabilities and accrued expenses	43
Deferred tax liability	50
	609
Total identifiable net assets at fair value	161
Non-controlling interest	(130)
Goodwill arising on acquisition	90
Purchase consideration transferred	121

The total cost of acquisition amounted to HRK 121 million.

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

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

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

4 Segment information

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

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

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

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

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

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

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

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

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

4 Segment information (continued)

Residential and Business segments

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

Year ended 31 December 2013	Residential	Business	Network & Support functions	Optima Telekom consolidated	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Segment revenue	3,991	3,051	-	-	7,042
Service revenues	*3,791*	*2,845*	-	-	*6,636*
Terminal equipment	*142*	*61*	-	-	*203*
Other	*58*	*145*	-	-	*203*
Usage related direct costs	(307)	(357)	-	-	(664)
Income and losses on accounts receivable	3	(47)	-	-	(44)
Contribution margin I (restated)	3,687	2,647	-	-	6,334
Non-usage related direct costs	(488)	(555)	-	-	(1,043)
Segment result (restated)	3,199	2,092	-	-	5,291
Other income	-	-	137	-	137
Other operating expenses	(410)	(423)	(1,597)	-	(2,430)
Depreciation, amortization and impairment of non-current assets	-	-	(1,366)	-	(1,366)
Operating profit	**2,789**	**1,669**	**(2,826)**	**-**	**1,632**

Year ended 31 December 2014	Residential	Business	Network & Support functions	Optima Telekom consolidated	Total
Segment revenue	3,942	2,745	-	221	6,908
Service revenues	*3,606*	*2,526*	-	-	*6,132*
Terminal equipment	*214*	*84*	-	-	*298*
Other	*122*	*135*	-	*221*	*478*
Usage related direct costs	(272)	(236)	-	(42)	(550)
Income and losses on accounts receivable	(24)	(62)	-	(3)	(89)
Contribution margin I	3,646	2,447	-	176	6,269
Non-usage related direct costs	(547)	(657)	-	(5)	(1,209)
Segment result	3,099	1,790	-	171	5,060
Other income	-	-	113	11	124
Other operating expenses	(447)	(423)	(1,621)	(59)	(2,550)
Depreciation, amortization and impairment of non-current assets	-	-	(1,359)	(52)	(1,411)
Operating profit	**2,652**	**1,367**	**(2,867)**	**71**	**1,223**

4 Segment information (continued)

Revenue by geographical area

	2014 HRK millions	2013 HRK millions
Republic of Croatia	6,574	6,608
Rest of the world	334	434
	6,908	**7,042**

The majority of Group's assets are located in Croatia.

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

5 Service expenses

	2014 HRK millions	2013 HRK millions
Domestic interconnection	375	411
International interconnection	174	253
Other services	233	225
	782	**889**

6 Depreciation, amortization and impairment of non-current assets

	2014 HRK millions	2013 HRK millions
Depreciation	913	901
Amortization	465	413
	1,378	1,314
Impairment loss	33	52
	1,411	**1,366**

Notes 11 and 12 disclose further details on amortization and depreciation expense and impairment loss.

7 Employee benefits expenses

	2014 HRK millions	2013 HRK millions
Gross salaries	851	857
Taxes, contribution and other payroll costs	199	207
Redundancy expenses (Note 21)	137	66
Long-term employee benefits	(59)	(16)
	1,128	**1,114**

8 Other expenses

	2014 HRK millions	2013 HRK millions
Maintenance services	319	279
Rent (Note 25)	185	183
Licence cost	206	177
Advertising	116	107
Selling commission	93	101
Contract workers	85	58
Postal expenses	46	49
Provision of trade receivables – net (Note 16)	89	44
Call centre and customer care support	42	43
Non-income taxes and contribution	40	41
Daily allowances and other costs of business trips	20	22
Education and consulting	68	20
Write down of inventories	6	17
Insurance	13	13
Loss on disposal of fixed assets	1	4
Other operating charges	84	108
	1,413	**1,266**

9 Income tax expense

a) Tax on profit

	2014 HRK millions	2013 HRK millions
Current tax expense	41	190
Deferred tax income	6	(2)
	47	**188**

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

	2014 HRK millions	2013 HRK millions
Profit before taxes	1,185	1,629
Income tax at 20% (domestic rate)	237	326
Tax effect of:		
Reinvested profit not subject to tax	(191)	(144)
Income not subject to tax	(7)	(8)
Tax adjustment related to previous years	(3)	8
Expenses not deductible for tax purposes	5	4
Tax effects of tax loss carry forward	(1)	(2)
Other	7	4
	47	**188**
Effective tax rate	3.97%	11.54%

The Group utilized tax relief for 2014 based on intention of reinvesting profit in the amount of HRK 956 million in accordance with Management Board Decision (2013: HRK 694 million). In line with related tax regulations, in order to be able to use this tax incentive, the share capital increase has to be court registered within 6 months from submission of the income tax return. If subsequently the capital that was increased by reinvested profit is decreased, this may result in a future tax liability for the Group. The Group believes a future tax liability will not arise in this regard. Issued share capital was increased in 2014 in the amount of HRK 694 million. (Note 22)

9 Income tax expense (continued)

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

Deferred tax assets and liabilities recognized in:	31 December 2014	Charged/ (credited) in 2014	Balance after acquisition	Acquisition of a subsidiary	31 December 2013	Charged/ (credited) in 2013	Effect of changes in accounting policies	31 December 2012
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Statement of comprehensive income								
Non-tax deductible value adjustments	21	(1)	22	-	22	(1)	-	23
Property, plant and equipment write down	11	(6)	17	-	17	1	-	16
Accrued interest on legal cases	3	(1)	4	-	4	(3)	-	7
Other	16	(1)	17	-	17	2	-	15
	51	(9)	60	-	60	(1)	-	61
Statement of other comprehensive income				-			-	
Actuarial gains and losses	-		-	-	-	(4)	-	4
Deferred tax asset	**51**	(9)	60	**-**	**60**	(5)	-	**65**
Statement of comprehensive income				-				
Past service costs	-		-	-	-	(3)	3	-
Purchase price allocation	47	(3)	50	50		-	-	-
	47	(3)	50	50	-	(3)	3	-
Statement of other comprehensive income				-				
Actuarial gains and losses	3	1	2	-	2	2	-	-
Deferred tax liability	**50**	(2)	52	**50**	**2**	(1)	3	**-**

9 Income tax expense (continued)

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted. Out of total amount of deferred tax asset, current part amounts to HRK 35 million, while current portion of deferred tax liability amounts to HRK 6 million.

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

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2016 for the 2014 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until the absolute statute of limitation of 6 years expires.

The Group has not recognised deferred income tax assets in respect of losses amounting to HRK 277 million that can be carried forward against future taxable income. These losses relate to subsidiaries of the Group for which it is uncertain whether there will be sufficient future taxable profits to realise these deferred income tax assets.

Losses expires in:	HRK million
2015	102
2016	95
2017	48
2018	32
	277

10 Earnings per share

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

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

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

	2014	2013
Profit for the year attributable to ordinary equity holders of the Company in HRK millions	1,143	1,441
Weighted average number of ordinary shares for basic earnings per share	81,884,604	81,885,322
	HRK 13.95	**HRK 17.60**

11 Intangible assets

	Licences	Software	Goodwill	Assets under construction and other assets	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2013					
Cost	432	2,767	162	366	3,727
Accumulated amortization	(164)	(2,219)	-	(202)	(2,585)
Net book value	**268**	**548**	**162**	**164**	**1,142**
Year ended 31 December 2013					
Opening net book value	268	548	162	164	1,142
Additions	149	219	-	272	640
Transfers	-	53	-	(53)	-
Amortization charge	(24)	(262)	-	(127)	(413)
Impairment loss	-	(5)	-	(6)	(11)
Net book value	**393**	**553**	**162**	**250**	**1,358**
As at 31 December 2013					
Cost	580	2,874	162	585	4,201
Accumulated amortization	(187)	(2,321)	-	(335)	(2,843)
Net book value	**393**	**553**	**162**	**250**	**1,358**
Year ended 31 December 2014					
Opening net book value	393	553	162	250	1,358
Acquisition of a subsidiary (Note 3)	6	12	90	274	382
Additions	-	172	-	271	443
Transfers	-	80	-	(80)	-
Amortization charge	(37)	(258)	-	(170)	(465)
Impairment loss	-	(2)	-		(2)
Net book value	**362**	**557**	**252**	**545**	**1,716**
As at 31 December 2014					
Cost	593	3,090	252	1,054	4,989
Accumulated amortization	(231)	(2,533)	-	(509)	(3,273)
Net book value	**362**	**557**	**252**	**545**	**1,716**

11 Intangible assets (continued)

The intangible assets of the Group as at 31 December 2013 include four licences for use of the radio frequency spectrum (Notes 2.4. e) and 31 b)).

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

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

Additions of intangible assets

Major additions in the 2014 reporting period relate to applicative, system and network technology software and user licences in the amount of HRK 172 million and capitalised costs of content in the amount of HRK 199 million.

Impairment loss

During 2014, the Group recognized an impairment loss for intangible assets of HRK 2 million (2013: HRK 11 million).

Disposal of intangible assets

The disposal of intangible assets primarily relates to the disposal of software in the gross amount of HRK 120 million (2013: HRK 168 million).

11 Intangible assets (continued)

Impairment testing of goodwill

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Residential	55	55
Business	107	107
Optima Telekom consolidated	90	-
	252	**162**

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

	Optima Telekom consolidated		Residential		Business	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Growth rate	2.0%	-	2.0%	2.0%	2.0%	2.0%
Discount rate	9.9%	-	9.6%	9.6%	9.6%	9.6%

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

12 Property, plant and equipment

	Land and buildings HRK millions	Telecom plant and machinery HRK millions	Tools, vehicles, IT and office equipment HRK millions	Assets under construction and other assets HRK millions	Total HRK millions
As at 1 January 2013					
Cost	2,160	11,420	1,139	509	15,228
Accumulated depreciation	(1,122)	(7,469)	(901)	(3)	(9,495)
Net book value	**1,038**	**3,951**	**238**	**506**	**5,733**
Year ended 31 December 2013					
Opening net book value	1,038	3,951	238	506	5,733
Additions	88	314	41	343	786
Transfers	82	288	40	(410)	-
Disposals	(2)	(3)	(2)	-	(7)
Depreciation charge	(95)	(712)	(94)	-	(901)
Impairment loss	(17)	(20)	-	(4)	(41)
Net book value	**1,094**	**3,818**	**223**	**435**	**5,570**
As at 31 December 2013					
Cost	2,310	11,612	1,007	439	15,368
Accumulated depreciation	(1,216)	(7,794)	(784)	(4)	(9,798)
Net book value	**1,094**	**3,818**	**223**	**435**	**5,570**
Year ended 31 December 2014					
Opening net book value	1,094	3,818	223	435	5,570
Acquisition of a subsidiary (Note 3)	-	322	7	8	337
Additions	14	377	26	213	630
Transfers	38	264	34	(336)	-
Disposals	-	(8)	(6)	(2)	(16)
Depreciation charge	(94)	(736)	(83)	-	(913)
Impairment loss	(1)	(16)	(6)	(8)	(31)
Net book value	**1,051**	**4,021**	**195**	**310**	**5,577**
As at 31 December 2014					
Cost	2,324	12,498	1,009	318	16,149
Accumulated depreciation	(1,273)	(8,477)	(814)	(8)	(10,572)
Net book value	**1,051**	**4,021**	**195**	**310**	**5,577**

12 Property, plant and equipment (continued)

Included within assets under construction of the Group are major spare parts of HRK 20 million (31 December 2013: HRK 17 million), net of an impairment provision of HRK 1 million (31 December 2013: HRK 2 million).

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

The Group does not have any material property, plant and equipment held for disposal, nor does it have any material idle property, plant and equipment.

Impairment loss

In 2014, the Group recognized an impairment loss of property, plant and equipment of HRK 31 million (2013: HRK 41 million) mostly due to transfer to the newer technology. The recoverable amount of that equipment is its estimated fair value less costs to sell, which recoverable amount is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom machinery, old tools, IT, office equipment and vehicles in the gross amount of HRK 522 million (2013: HRK 642 million).

Ownership over ducts

Although assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company, by virtue of the "Law on Separation of Croatian Post and Telecommunication" and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, part of the Group's infrastructure that is considered as a real estate, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) and the major portion of these assets are not registered in the land registry, which may be relevant to the issue of proving the ownership towards third parties. Intrusions in HT's ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb and City of Split present the majority of problems), may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for some ducts.

The Group has formed the Registration And Contractual Relation Management Department that is responsible to assure that all network technology related assets are properly legalised, documented and that this documentation is available to all relevant departments and authorities. The overall process is slow and complex since the registration depends not only on HT but also on local and state authorities. Since the year 2006, the actions of HT have been concentrated on the conclusion of "right of servitude" contracts with local municipalities and "right of use" contracts with Croatian and County Roads.

12 Property, plant and equipment (continued)

Ownership over ducts (continued)

In connection with the offer for sale of ordinary shares held by the Government of Republic of Croatia in 2007, the Government of Republic of Croatia, the Company and DT AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Inter alia, this provides the underlying principles under which right of way charges and shared usage issues will be based.

The Government of Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible.

In accordance with Ordinance on Manner and Conditions for Access and Joint Use of Electronic Communications Infrastructure and Related Equipment (Official Gazette No. 154/08 effective as at 6 January 2009) and Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 31/09 effective as of 19 March 2009 and Official Gazette No. 152/11 effective as of 4 January 2012), the Croatian Post and Electronic Communications Agency ("HAKOM", today Croatian regulatory Agency for network industries) issues certificates for the rights of way to HT. HAKOM granted HT certificates for the right of way for approximately 50% of ducts in the City of Zagreb, based on which HT pays certain fee. The Group believes that the issued certificates for the rights of way might help HT in the lawsuit filed by Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") (Note 26 b)). Due to existing of those certificates, ZHZDG corrected their lawsuit in its statement submitted to the Court and admitted ownership rights to HT for DTI where the certificates were obtained.

The legalization process is to be speed up due to Law on Electronic Communications which obliges local municipality and other owners of the land where the electronic communication infrastructure were constructed to tolerate "right of way" which HT owns based on the Law, except if owner of the land and HT do not agree any other right.

The Group assessed and declared the existence of the risks thereon, including obtaining legal opinions with respect to certain of the issues involved. However, due to the fact that these issues are very complex, so far the Group has not yet been able to determine possible outcome and whether it will result in any impairment of the DTI assets concerned due to any inability to prove title, or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect. Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2014 is HRK 816 million (31 December 2013: HRK 838 million).

13 Investments accounted for using the equity method

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Joint venture HT d.d. Mostar:		
As at 1 January	396	396
Share of profits	14	21
Dividends paid	(17)	(21)
As at 31 December	393	396
Associate HP d.o.o. Mostar:		
As at 1 January	2	2
Share of profit/(loss)	1	(1)
(Impairment loss)/Reversal of impairment loss	(1)	1
As at 31 December	2	2
	395	**398**

a) Investment in joint venture:

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

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

The Group’s share in HT d.d. Mostar profit for the year ended 31 December 2014 is recognized in the statement of comprehensive income in the amount of HRK 14 million (2013: HRK 21 million).

In 2014, HT received a dividend of HRK 17 million from HT d.d. Mostar (2013: HRK 21 million).

b) Investment in associate:

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

13 Investments accounted for using the equity method (continued)

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

Summarised statement of financial position:	31 December 2014 HRK millions	31 December 2013 HRK millions
Joint venture HT d.d. Mostar:		
Current		
Cash and cash equivalents	4	8
Other current assets	313	286
Total current assets	**317**	**294**
Financial liabilities	17	19
Other current liabilities	244	310
Total current liabilities	**261**	**329**
Non current		
Assets	**1,312**	**1,429**
Financial liabilities	6	20
Other liabilities	36	48
Total non-current liabilities	**42**	**68**
Net assets	**1,326**	**1,326**
Associate HP d.o.o. Mostar:		
Current		
Cash and cash equivalents	39	17
Other current assets	14	32
Total current assets	**53**	**49**
Financial liabilities	-	-
Other current liabilities	15	15
Total current liabilities	**15**	**15**
Non current		
Assets	**54**	**55**
Financial liabilities	-	-
Other liabilities	3	2
Total non-current liabilities	**3**	**2**
Net assets	**89**	**87**

13 Investments accounted for using the equity method (continued)

Summarised statement of comprehensive income:	2014 HRK millions	2013 HRK millions
Joint venture HT d.d. Mostar:		
Revenue	916	965
Depreciation and amortisation	(252)	(243)
Interest income	7	1
Interest expense	(3)	(5)
Pre-tax profit /(loss)	40	64
Income tax expense	(5)	(8)
Net income	35	56
Dividends received	17	21
Associate HP d.o.o. Mostar:		
Revenue	102	93
Depreciation and amortisation	(3)	(4)
Interest income	1	1
Interest expense	-	-
Pre-tax profit /(loss)	2	(5)
Income tax expense	-	-
Net income	2	(5)
Dividends received	-	-

13 Investments accounted for using the equity method (continued)

Reconciliation of summarised financial information	31 December 2014 HRK millions	31 December 2013 HRK millions
Joint venture HT d.d. Mostar		
Opening net assets 1 January	1,326	1,310
Profit / (loss) for the period	35	56
Dividends paid	(41)	(55)
Foreign currency translation	6	15
Closing net assets	1,326	1,326
Interest in joint venture 39.10%	518	518
Foreign currency translation	(4)	(1)
Impairment	(121)	(121)
Carrying value	393	396
Associate HP d.o.o. Mostar		
Opening net assets 1 January	87	91
Profit / (loss) for the period	2	(5)
Foreign currency translation	-	1
Closing net assets	89	87
Interest in associates 30.29%	27	26
Foreign currency translation	(1)	-
Impairment	(24)	(24)
Carrying value	2	2

14 Available-for-sale financial assets

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

Issuer	*Credit rating*	*Currency*	*Maturity*	31 December 2014 HRK millions	31 December 2013 HRK millions
Domestic bond:					
Government Republic of Croatia	BB+	HRK	8 February 2017	36	35
Foreign bonds:					
Government of France	AA	EUR	25 September 2014	-	153
Government of Germany	AAA	EUR	12 September 2014	-	153
Government of Germany	AAA	EUR	13 June 2014	-	76
Government of Netherland	AAA	EUR	15 April 2015	77	77
Government of Netherland	AAA	EUR	15 April 2016	77	76
Government of France	AA	EUR	25 July 2015	184	-
Government of Germany	AAA	EUR	11 December 2015	77	-
Government of Germany	AAA	EUR	4 September 2022	84	-
Government of Germany	AAA	EUR	15 May 2023	84	-
Other				8	10
				627	**580**
Non-current				289	196
Current				338	384
				627	**580**

Interest rate on domestic bond is 4.75%. Interest rates on foreign bonds are up to 1.6 %.

The estimated fair value of investments in bonds at 31 December 2014 is determined by reference to their market value offered on the secondary capital market, which is an active market, at the statement of financial position date and belongs to level 1 under the financial instruments fair value hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2014.

15 Inventories

	31 December 2014 HRK millions	31 December 2013 HRK millions
Merchandise	58	54
Inventories and spare parts	57	61
	115	**115**

16 Trade and other receivables

	31 December 2014 HRK millions	31 December 2013 HRK millions
Trade receivables	87	107
Other receivables	34	19
Non-current	121	126
Trade receivables	1,195	1,215
Other receivables	45	36
Current	1,240	1,251
	1,361	**1,377**

During 2013, the Group entered into several prebankruptcy settlements with its debtors which stipulate that part of reported current trade receivables is converted to non-current receivables (HRK 39 million) with maturities up to 5 years.

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	31-60 days	61-90 days	91-180 days	>180 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
31 December 2014	1,195	915	152	47	24	49	8
31 December 2013	1,215	891	171	44	31	77	1

16 Trade and other receivables (continued)

As at 31 December 2014, trade receivables with a nominal value of HRK 1,150 million (31 December 2013: HRK 1,100 million) were deemed impaired and fully provided for.

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

	2014 HRK millions	2013 HRK millions
As at 1 January	1,100	1,092
Acquisition of a subsidiary (Note 3)	29	-
Charge for the year (Note 8)	160	133
Unused amounts reversed (Note 8)	(71)	(89)
Receivables written-off	(68)	(36)
As at 31 December	**1,150**	**1,100**

17 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

	31 December 2014 HRK millions	31 December 2013 HRK millions
Cash on hand and balances with banks	1,236	1,261
Time deposits with maturity less than 3 months	797	778
Secured deposits (reverse REPO agreements)	159	-
	2,192	**2,039**

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
HRK	2,101	1,919
EUR	593	646
USD	99	86
BAM	12	5
RSD	1	-
	2,806	**2,656**

17 Cash and cash equivalents and bank deposits (continued)

c) Time deposits with maturities more than 3 months

	31 December 2014 HRK millions	31 December 2013 HRK millions
Foreign bank	614	601
Domestic banks	-	16
	614	**617**

d) Guarantee deposits

	Current		Non-current	
	31 December 2014 HRK millions	31 December 2013 HRK millions	31 December 2014 HRK millions	31 December 2013 HRK millions
Foreign bank	21	12	51	21
Domestic banks	1	1	-	-
	22	**13**	**51**	**21**

17 Cash and cash equivalents and bank deposits (continued)

e) Secured deposits (reverse REPO agreements)

Issuer	*Currency*	*Maturity*	31 December 2014 HRK millions	31 December 2013 HRK millions
Reverse REPO agreements (Note 28 g)):				
Erste Steiermärkische Bank d.d.	HRK	5 February 2014	-	149
Erste Steiermärkische Bank d.d.	HRK	22 January 2014	-	95
Raiffeisen Bank Austria d.d.	HRK	28 January 2014	-	73
Erste Steiermärkische Bank d.d.	HRK	20 February 2015	92	-
Erste Steiermärkische Bank d.d.	HRK	23 January 2015	91	-
Erste Steiermärkische Bank d.d.	HRK	6 May 2015	81	-
Raiffeisen Bank Austria d.d.	HRK	21 April 2015	75	-
Raiffeisen Bank Austria d.d.	HRK	15 April 2015	75	-
Raiffeisen Bank Austria d.d.	HRK	23 March 2015	75	-
Raiffeisen Bank Austria d.d.	HRK	30 March 2015	75	-
			564	**317**

Interest rates at 31 December 2014 on reverse REPO agreements range up to 1.00%.

18 Trade payables and other liabilities

	31 December 2014 HRK millions	31 December 2013 HRK millions
Content contracts	139	82
Licence for radio frequency spectrum	28	34
Other	17	22
Non-current	184	138
Trade payables	1,433	1,464
VAT and other taxes payable	83	99
Payroll and payroll taxes	69	77
Other	34	26
Current	1,619	1,666
	1,803	**1,804**

19 Deferred income

	31 December 2014 HRK millions	31 December 2013 HRK millions
Connection fee	3	4
Leased line	23	-
Non-current	26	4
Prepaid vouchers	76	68
Customer loyalty programme	-	27
Connection fee	1	1
Other	34	24
Current	111	120
	137	**124**

20 Employee benefit obligations

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

Long-term employee benefits include a compensation for the employees detailed described in Note 32.

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

	2014 HRK millions	2013 HRK millions
As at 1 January	70	140
Effect of change in accounting policy	-	(17)
Acquisition of a subsidiary (Note 3)	1	-
LTIP – Variable II (Note 32)	2	2
Service costs	5	10
Interest costs	2	7
Past service costs	(51)	(1)
Amortization losses/(gains)	(8)	(27)
Benefit paid	(7)	(12)
Curtailments	(4)	-
Actuarial losses/(gains)	(1)	(32)
As at 31 December	**9**	**70**
Retirement	2	14
Jubilee	-	52
LTIP – Variable II	7	4
	9	**70**

As at 31 December 2014, the current portion of the provision for LTIP programme amounts to HRK 2 million.

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

	2014 in %	2013 in %
Discount rate (annually)	6.5	6.5
Wage and salary increases (annually)	2.0	2.0

21 Provisions for other liabilities and charges

	Legal claims	Asset retirement obligation	Redundancy	Variable salary	Unused vacation	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2014	39	23	-	40	13	115
Acquisition of a subsidiary (Note 3)	-	-	-	-	2	2
Additions	13	-	137	74	8	232
Utilisation	(4)	-	(102)	(39)	(12)	(157)
Reversals	(11)	-	-	-	-	(11)
Current portion of employee benefits obligations (Note 20)	-	-	-	2	-	2
Interest costs	-	2	-	-	-	2
As at 31 December 2014	**37**	**25**	**35**	**77**	**11**	**185**
Non-current	37	25	-	-	-	62
Current	-	-	35	77	11	123
	37	**25**	**35**	**77**	**11**	**185**

21 Provisions for other liabilities and charges (continued)

a) Legal claims

As at 31 December 2014, the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to result in outflow of resources of the Group.

b) Asset retirement obligation

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

c) Redundancy

Redundancy expenses and provisions include the amount of gross severance payments and other related costs for employees whose employment contracts are terminated during 2014.

22 Issued share capital

Authorised, issued, fully paid and registered share capital:

	31 December 2014 HRK millions	31 December 2013 HRK millions
81,888,535 ordinary shares without par value	8,883	8,189

Issued share capital increased in 2014 in the amount of HRK 694 million due to partial reinvestment of profit for the year 2013 in accordance with provisions of the related tax regulations. (Note 9)

The number of shares in issue remained unchanged between 1 January 1999 and 31 December 2014.

In 2014, the Group did not acquire any of its own shares (2013: 2000). The Group holds total 3,931 of its own shares as at 31 December 2014.

23 Legal reserves

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

24 Retained earnings

In 2014, the Group paid a dividend of HRK 9.00 per share (2013: HRK 20.51) for a total of HRK 737 million (2013: HRK 1,679 million).

25 Commitments

a) Operating lease commitments

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

Operating lease charges:

	2014 HRK millions	2013 HRK millions
Current year expense (Note 8)	185	183

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Within one year	159	168
Between 1 and 5 years	545	542
Greater than 5 years	390	404
	1,094	**1,114**

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Intangible assets	106	92
Property, plant and equipment	1,045	610
	1,151	**702**

Increase in capital commitments is a result of a contract to outsource the services of construction and maintenance of HT’s infrastructure was signed with Ericsson.

26 Contingencies

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

a) Competition / Regulatory matters

The Group vigorously defends all of its competition/regulatory situations, including those disclosed below. There is no history of significant settlements in Croatia under either the Competition Law or imposed by Misdemeanour Courts. Due to the lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the possible outcome of these cases. However management believes that any settlement will be significantly less than the maximum penalties outlined below.

Competition Agency proceedings regarding retransmission of football games

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

The proceeding is pending.

The pecuniary fine pursuant to the Competition Act is limited to up to 10% of yearly turnover of the Company in the last year for which financial reports have been concluded. Also, according to the Agency´s practice, the fine is usually connected with up to 30% of the turnover acquired from the services provided on the relevant market. On the basis of the results for 2013, 30% of the gross revenue of MAXtv services would amount to HRK 92 million.

Supervision of Croatian Regulatory Authority for Network Industries (HAKOM) on Reference Interconnection Standard Offer inconsistence

Croatian Post and Electronic Communications Agency – today Croatian Regulatory Authority for Network Industries (HAKOM) initiated supervision over HT and issued on 8th July 2011 a decision stating that HT by publishing Standard Offer for Reference Interconnection on 1st July 2011 breached its regulatory transparency, price control and cost accounting obligations, determined in HAKOM's decision from April 2011. Pursuant to this decision, HT received in November 2012 a misdemeanour indictment in which HAKOM proposed to the Misdemeanour Court to punish HT with a fine in the amount of 3% of the annual gross revenue earned in the year 2010, stating the amount of HRK 233.4 million. HT submitted in written its defence and the first-instance misdemeanour procedure is still ongoing.

26 Contingencies (continued)

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 12), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range up to 390 million plus interest.

The suit is based on the legal acts adopted by the Administration and Assembly of the City of Zagreb in the years 2006 and 2007 by which management of DTI has been declared as communal activity executed by the City of Zagreb.

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

Since the plaintiff was rejected with the main part of his claim, and since the interlocutory partial judgement defines that the amount of the claim shall be discussed only after legal validity of the judgement, management concluded that no provision is required to be recognised in the financial statements for this case.

27 Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by DT AG. The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2014 and 2013. Further, DT AG provided technical assistance to the Group of HRK 24 million (2013: HRK 19 million).

The main transactions with related parties during 2014 and 2013 were as follows:

	Revenue		Expenses	
	2014	2013	2014	2013
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Ultimate parent				
Deutsche Telekom AG, Germany	54	30	134	70
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	7	23	7	42
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	10	9	6	4
T-Mobile Austria GmbH, Austria	3	3	1	1
T-Systems International GmbH, Germany	3	3	5	9
Others	16	19	7	11
	93	**87**	**160**	**137**

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

	Receivables		Payables	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Ultimate parent				
Deutsche Telekom AG, Germany	3	3	158	149
Joint venture				
HT d.d. Mostar, Bosnia and Herzegovina	-	-	-	9
Subsidiaries of ultimate parent				
Telekom Deutschland GmbH, Germany	-	-	4	45
T-Mobile Austria GmbH, Austria	1	-	-	4
T-Mobile Czech a.s., Czech Republic	-	-	-	6
T-Systems International GmbH, Germany	-	-	3	6
Others	2	6	1	22
	6	**9**	**166**	**241**

27 Balances and transactions with related parties (continued)

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

DTAG and the Group did not execute as part of its normal business activities any transactions that were individually material in the 2014 or 2013 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

Compensation of the members Supervisory Board

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

In July 2013, the Supervisory Board established the Sustainability Committee. The Committee consists of three members, two external experts and one member of the Supervisory Board. Members of the Sustainability Committee who are not at the same time members of the Supervisory Board are entitled to monthly remuneration in the amount of 0.25 of the average net salary of employees of the Company paid in the preceding month. During 2014, only one member received remuneration, which was not being paid directly to him but in line with his instruction, remuneration was paid out to the benefit of the Fund for award of scholarships to Croatian Homeland War veterans and their children.

Due to the accomplishments of the mission of the Sustainability Committee, in December 2014 the Supervisory Board passed the decision on its termination.

In 2014, the Group paid a total amount of HRK 0.6 million (2013: HRK 0.7 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

27 Balances and transactions with related parties (continued)

Compensation to key management personnel

In 2014, the total compensation paid to key management personnel of the Group amounted to HRK 41 million (2013: HRK 45 million). Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

Compensation paid to key management personnel includes:

	2014 HRK millions	2013 HRK millions
Short-term benefits	41	45
	41	**45**

28 Financial risk management objectives and policies

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

a) Credit risk

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

The Group does not guarantee obligations of other parties.

The Group considers that its maximum exposure is reflected by the amount of debtors (Note 16) net of provisions for impairment recognized at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2014, the Group had business transactions with nineteen banks (2013: fifteen banks). The Group held cash and deposits in six banks almost exclusively. For five domestic banks with foreign ownership, the Group received guarantees for deposits given from parent banks which have a minimum rating of BBB+ or guarantees in form of low-risk government securities. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership at the domestic and foreign markets and on contacts with the banks on a daily basis.

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Trade receivables for rendered telecom services to domestic customers	825	768
Trade receivables for rendered telecom services to foreign customers	23	28
Other trade receivables	67	95
	915	**891**

28 Financial risk management objectives and policies (continued)

b) Liquidity risk

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

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

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

31 December 2014	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1.471	37	-	-
Capitalized rights	28	83	159	9
Finance lease	1	3	6	1
Bank borrowings	2	8	95	208
Mandatory convertible loan (MCL)	-	-	41	-
Liabilities from pre-bankruptcy settlement	-	31	27	-
Issued bond	-	4	51	41
Other liabilities	-	-	11	6

31 December 2013	Less than 3 months HRK million	3-12 months HRK million	1-5 years HRK million	>5 years HRK million
Trade and other payables	1.549	13	-	-
Capitalized rights	24	80	105	12
Finance lease	2	3	4	-
Other liabilities	-	-	11	7

28 Financial risk management objectives and policies (continued)

c) Interest rate risk

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

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

	Increase/ decrease in basis points	Effect on profit post tax HRK millions
Year ended 31 December 2014		
HRK	+100	7
	-100	(7)
EUR	+100	7
	-100	(7)
Year ended 31 December 2013		
HRK	+100	9
	-100	(9)
EUR	+100	9
	-100	(9)

28 Financial risk management objectives and policies (continued)

d) Foreign currency risk

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

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

	Increase/ decrease in EUR rate	Effect on profit post tax HRK millions
Year ended 31 December 2014	+3%	21
	-3%	(21)
Year ended 31 December 2013	+3%	26
	-3%	(26)

e) Fair value estimation

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

f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capital structure of the Group comprises of issued capital, reserves and retained earnings and totals HRK 11,235 million as at 31 December 2014 (31 December 2013: HRK 10,700 million).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013 (Notes 22 and 24).

28 Financial risk management objectives and policies (continued)

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

	Credit rating	31 December 2014 HRK millions	31 December 2013 HRK millions
Foreign bonds:			
Government of Germany	AAA	162	251
Government of Austria	AAA	501	-
Government of Netherlands	AAA	77	-
Foreign treasury bills:			
Government of France		-	76
		740	**327**

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

h) Offsetting

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

	Trade receivables		Trade payables	
	31 December 2014 HRK millions	31 December 2013 HRK millions	31 December 2014 HRK millions	31 December 2013 HRK millions
Gross recognised amounts	68	131	207	368
Offsetting amount	(58)	(90)	(58)	(90)
	10	**41**	**149**	**278**

29 Financial instruments

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

	Carrying amount		Fair value	
	31 December 2014 HRK millions	31 December 2013 HRK millions	31 December 2014 HRK millions	31 December 2013 HRK millions
Financial assets:				
Cash and cash equivalents	2,192	2,039	2,192	2,039
Guarantee deposits, current	22	13	22	13
Time deposits	614	617	614	617
Available-for-sale assets, non-current	289	196	289	196
Available-for-sale assets, current	338	384	338	384
Secured deposits	564	317	564	317
Guarantee deposits, non-current	51	21	51	21

30 Borrowings

	Carrying amount		Fair value	
	31 December 2014 HRK millions	31 December 2013 HRK millions	31 December 2014 HRK millions	31 December 2013 HRK millions
Bank borrowings	230	-	230	-
Mandatory Convertible loan (MCL)	41	-	41	-
Issued bond	75	-	75	-
Liabilities from pre-bankruptcy settlement	27	-	27	-
Finance lease	7	-	7	-
Non-current	**380**	**-**	**380**	**-**
Liabilities from pre-bankruptcy settlement	30	-	30	-
Bank borrowings	3		3	
Finance lease	3	5	3	5
Current	**36**	**5**	**36**	**5**
Total	**416**	**5**	**416**	**5**

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

30 Borrowings (continued)

Borrowings have been secured by guarantees issued by Optima (promissory notes and bills of exchange) in amount of HRK 368 million and by telecom equipment of Optima in the amount of HRK 158 million (net carrying value).

Currency breakdown of financial liabilities

	31 December 2014 HRK millions	31 December 2013 HRK millions
HRK	177	5
EUR	239	-
	416	**5**

Issued bond

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

31 Authorization for Services and Applicable Fees

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

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

On 1 July 2008, a new Law on Electronic Communications entered into force and introduced general authorization for all electronic communications services and networks. In the meantime, four Amendments to the Law on Electronic Communications entered into force and were published in the Official Gazette No. 90/11, 133/12, 80/13 and 71/14. Pursuant to Article 32 of the Law on Electronic Communications, the Company is entitled to provide the following electronic communication services based on the general authorisation which was last updated on 15 November 2010:

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

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

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

31 Authorization for Services and Applicable Fees (continued)

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

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

b) Authorization for usage of radio frequency spectrum

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

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

HAKOM also issued to the Company licences for the use of radio frequency spectrum for satellite services (DTH services) with the validity from 12 August 2010 until 11 August 2015.

c) Fees for providing electronic communications services

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

In 2014, the Company paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the maritime affairs, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12 and 62/14)
- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and
- the fees for use of addresses, numbers, radio frequency spectrum and for the performance of other tasks of HAKOM, pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette No. 160/13).

31 Authorization for Services and Applicable Fees (continued)

d) Audiovisual and electronic media services

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

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

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

e) Electronic communications infrastructure and associated facilities

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

32 Share-based and non share-based payment transactions

Long-term incentive plans (LTIPs – HT Variable II 2011, HT Variable II 2012, HT Variable II 2013 and HT variable II 2014) exist at Group level to ensure competitive total compensation for members of the Management Board, senior executives and other beneficiaries. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

Transitional HT MTIP 2011 ended on 31 December 2013, but in 2014 there was no reward payment to participants, because neither of the two Transitional HT MTIP 2011 targets, has been achieved, which was confirmed by Supervisory Board decision.

LTIPs – HT Variable II 2011, HT Variable II 2012, HT Variable II 2013 and HT Variable II 2014 are cash-based plans with four equally weighted performance parameters that cannot be changed during plan duration. Two targets are financial KPIs, adjusted Earnings Per Share (EPS) and adjusted operating Return On Capital Employed (ROCE), third and fourth targets are customer and employee satisfaction. Duration of the plan is four years effective from 1 January every year.

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

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

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

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

The MSP is program under which the participant can receive HT shares on expiry of a four-year period. The participant is obliged to invest an amount from 10% to a maximum 33.33% of the paid out gross annual variable salary to HT shares. The participant is granted one additional HT share for each share, under condition that he/she held them continuously for a period of at least four years from the date of purchase (vesting period). Employee services are recognized as expenses on a pro rata basis over the vesting period. The Group is measuring value of employee services, indirectly, by reference to the fair value of the equity instruments granted. The fair value of the equity instruments granted is measured at grant date by using observable market price.

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

	2014 HRK millions	2013 HRK millions
Expenses	(6)	(2)
	(6)	**(2)**

33 Auditor’s fees

The auditors of the Group’s financial statements have rendered services of HRK 4.2 million in 2014 (2013: HRK 4.7 million). Services rendered in 2014 and 2013 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes.

34 Events after reporting period

No events or transactions have occurred since 31 December 2014 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Group’s affairs to require disclosure in the financial statements.