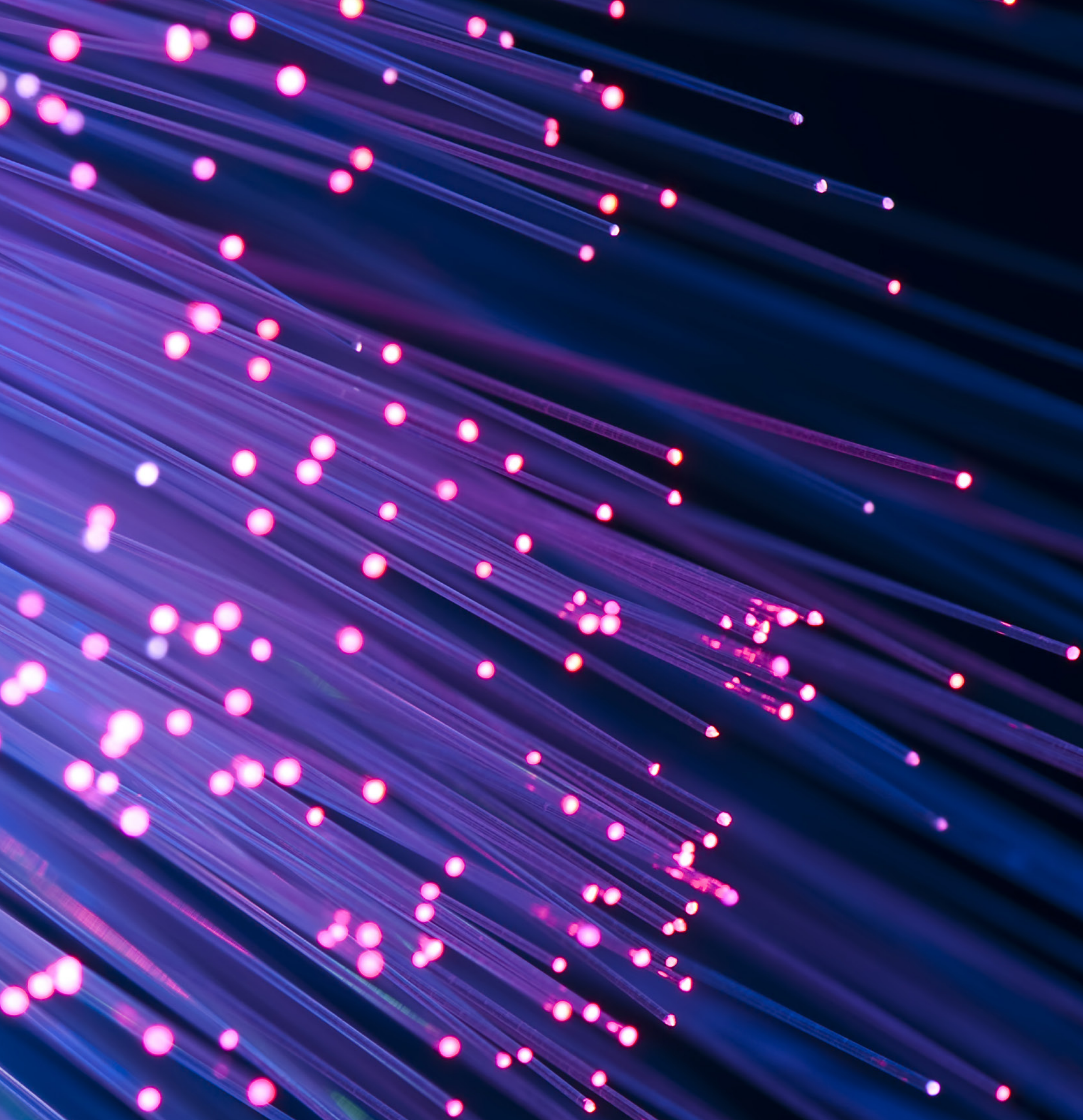

ANNUAL REPORT
2015.

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CONTENT

FINANCIAL HIGHLIGHTS

in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Revenue	6,908	6,919	0,2%
EBITDA before exceptional items	2,793	2,783	-0,4%
Exceptional items	152	91	-39,8%
EBITDA after exceptional items	2,641	2,691	1,9%
EBIT (Operating profit)	1,225	1,199	-2,2%
Net profit after non controlling interests	1,142	925	-19,1%
EBITDA margin before exceptional items	40,4%	40,2%	-0,2 p.p.
EBITDA margin after exceptional items	38,2%	38,9%	0,7 p.p.
EBIT margin	17,7%	17,3%	-0,4 p.p.
Net profit margin	16,5%	13,4%	-3,2 p.p.
Balance Sheet	**At 31 Dec 2014**	**At 31 Dec 2015**	**% of change A15/A14**
Total non current assets	8,206	8,444	2,9%
Total current assets	5,635	5,636	0,0%
TOTAL ASSETS	**13,841**	**14,079**	**1,7%**
Total issued capital and reserves	11,276	11,641	3,2%
Total non current liabilities	654	556	-15,1%
Total current liabilities	1,910	1,882	-1,5%
TOTAL EQUITY AND LIABILITIES	**13,841**	**14,079**	**1,7%**
Cash flow	**2014.**	**2015.**	**% of change A15/A14**
Net cash flow from operating activities	2,295	2,367	3,1%
Net cash flow from investing activities	-1,218	-557	54,3%
Net cash flow from financing activities	-930	-832	10,5%
Cash and cash equivalents at the end of period	**2,192**	**3,175**	**44,8%**
CAPEX	1,076	1,473	36,9%
CAPEX / Revenue ratio	15,6%	21,3%	5,7 p.p.
	At 31 Dec 2014	**At 31 Dec 2015**	**% of change A15/A14**
ROE	10,4%	8,1%	-2,3 p.p.
ROCE	10,3%	9,8%	-0,4 p.p.
Number of employees (FTEs)	4,994	4,742	-5,0%
RESIDENTIAL SEGMENT			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Revenue	3,942	3,776	-4,2%
Contribution to EBITDA before exceptional items	2,687	2,611	-2,8%
BUSINESS SEGMENT			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Revenue	2,745	2,718	-1,0%
Contribution to EBITDA before exceptional items	1,393	1,353	-2,9%
NETWORK & SUPPORT FUNCTIONS			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Contribution to EBITDA before exceptional items	-1,411	-1,406	0,3%
SEGMENT OPTIMA CONSOLIDATED			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Revenue	221	425	92,0%
Contribution to EBITDA before exceptional items	123	224	82,3%

OPERATIONAL STATISTICS

Key operational data	2014.	2015	% of change A15/A14
Mobile customers in 000			
Number of customers	**2,252**	**2,233**	**-0,9%**
- Residential	1,777	1,749	-1,6%
- Business	475	483	1,7%
Number of postpaid customers	**1,099**	**1,119**	**1,8%**
- Residential	658	673	2,3%
- Business	441	446	1,1%
Number of prepaid customers	**1,153**	**1,114**	**-3,4%**
Minutes of use (MOU) per average customer	**188**	**195**	**3,8%**
- Residential	171	178	4,3%
- Business	254	258	1,4%
Blended ARPU (monthly average for the period in HRK)	**79**	**75**	**-5,6%**
- Residential	70	66	-5,6%
- Business	117	109	-6,8%
Blended non-voice ARPU (monthly average for the period in HRK)	**33**	**36**	**6,4%**
SAC per gross add in HRK	**123**	**96**	**-22,3%**
Churn rate (%) (monthly average for the period)	**2,9**	**2,6**	**-0,2 p.p.**
Penetration (%) [1]	**114**	**113**	**-0,8 p.p.**
Market share of customers (%) [1]	**47**	**47**	**0,2 p.p.**
Data customers	**1,409**	**1,496**	**6,2%**
Smartphone customers (%) [2]	**41**	**51**	**10,6 p.p.**
Smartphones sold (%) [3]	**73**	**79**	**6,0 p.p.**

[1] Source: new estimation for HR population 2015 and 2014 official data published by Croatian Bureau of Statistics
[2] Number of customers using smartphone handsets in total number of mobile customers
[3] Number of smartphones sold in total number of handsets sold (postpaid only)

OPERATIONAL STATISTICS

Key operational data	2014.	2015.	% of change A15/A14
Fixed mainlines in 000			
Fixed mainlines - retail [1)]	**1,050**	**968**	**-7,8%**
- Residential	914	850	-6,9%
- Business	136	118	-13,4%
Fixed mainlines - wholesale (WLR - wholesale line rental)	**116**	**104**	**-9,8%**
- Residential	102	94	-7,8%
- Business	13	10	-25,3%
Total traffic (mill. of minutes) [2)]	**1,545**	**1,311**	**-15,1%**
- Residential	1,268	1,112	-12,3%
- Business	277	199	-28,1%
ARPA voice per access (monthly average for the period in HRK) [3)]	**94**	**88**	**-6,8%**
- Residential	84	79	-5,8%
- Business	161	150	-6,8%
IP mainlines/customers in 000			
Broadband access lines - retail [4)]	**614**	**603**	**-1,8%**
- Residential	512	505	-1,3%
- Business	102	98	-4,5%
Broadband access lines - wholesale [5)]	**73**	**105**	**44,7%**
- Business	73	105	44,7%
TV customers	**393**	**388**	**-1,5%**
- Residential	370	364	-1,6%
- Business	23	23	-0,3%
thereof IPTV	**333**	**316**	**-5,1%**
- Residential	312	296	-5,2%
- Business	21	20	-2,9%
thereof Cable TV	**6**	**6**	**-0,4%**
- Residential	6	6	-0,4%
- Business	0	0	-1,4%
thereof Satellite TV	**54**	**65**	**20,6%**
- Residential	52	63	20,5%
- Business	2	3	23,0%
Fixed-line customers	**2**	**2**	**13,2%**
VPN connection points	**5**	**5**	**-0,8%**
Broadband retail ARPA (monthly average for the period in HRK)	**126**	**126**	**-0,3%**
- Residential	124	123	-1,0%
- Business	136	140	3,1%
TV ARPU (monthly average for the period in HRK)	**80**	**81**	**1,3%**
- Residential	79	80	0,9%
- Business	97	103	6,4%
Data lines in 000			
Total data lines	**5**	**5**	**1,7%**
Wholesale customers in 000			
CPS (Carrier Pre-Selection)	**14**	**9**	**-40,4%**
NP (Number portability) users/number	**736**	**873**	**18,5%**
ULL (Unbundled Local Loop)	**168**	**159**	**-5,5%**

1) Includes PSTN, FGSM and old PSTN Voice customers migrated to IP platform; payphones excluded
2) Total traffic is generated by fixed retail mainlines as defined in note 1.
3) Payphones excluded
4) Includes ADSL, FTTH and Naked DSL
5) Includes Naked Bitstream + Bitstream

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

Presentation of information in the Annual Report

Unless the context otherwise requires, references in this publication to “HT Group” or “the Group” or are to the Company - Hrvatski Telekom d.d., together with its subsidiaries.
References to “HT” or “Company” are to the Company - Hrvatski Telekom d.d.
References to “Iskon” are to the Company’s wholly-owned subsidiary, Iskon Internet d.d.
References to “Combis” are to the Company’s wholly-owned subsidiary, Combis, usluge integracije informatičkih tehnologija d.o.o.
References in this publication to “Agency” are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.
Presented financial figures may slightly differentiate from Consolidated Financial statements due to rounding principle (in Consolidated Financial statements all mathematic operations are performed with numbers without decimal places).

INTRODUCTION

LETTER TO SHAREHOLDERS

Dear shareholders,

When we started with the transformation of Hrvatski Telekom a little more than two years ago, we found a large company with teams made up of excellent workers, but we also found a slow and fragmented organisational structure that did not leave sufficient room for realisation of all our potentials. Two years later, we believe that our results show that we have transformed HT into a company that is reinforcing its leadership position to the benefit of its shareholders and of the wider community.

Allow me, please, to elaborate on how we continued with the transformation of our company in 2015 and how this has positively impacted our results.

We look back at a very successful year, in which we stabilised all financial indicators and laid the foundations for further growth and development of our business. Last year, Hrvatski Telekom generated revenue amounting to HRK 6,92 billion, which is by 0,2% above the results of 2014, when a decline of 1,9% was recorded. We are firmly holding the leading position in all segments of the telecommunications market; full revenue stabilisation was notably impacted by growth in the ICT segment and electricity business.

Investment is always the basis of long-term development, which is particularly true in high-tech industries. This is why, last year, we substantially increased the value of investment, to a total of HRK 1,47 billion, which was by 36,9% more than in 2014. We put the focus of our investment on three strategic areas – development of the mobile and fixed line infrastructure, increased broadband access capacity, and completion of the IP migration process.

It is our very finalisation of IP migration which makes us the technological leader not only in Croatia, but in Europe as well, as we take pride in saying that HT is only the third telecommunications operator in the European Union to have completed the migration of all its customers and services to an ALL-IP environment. Over the last five years, we have invested more than HRK 400 million into this project.

Last year, 4G network coverage was increased by 20 percentage points, so that now, network indoor coverage has reached 65% of the population or, respectively, population outdoor coverage is 93%. In urban areas, speeds were increased to up to 225 Mbit/s, which is three times higher than by the end of 2014, which makes our network the fastest one on the Croatian market. Moreover, Hrvatski Telekom received the P3 "Best in Test" Certificate, an internationally accepted proof of the highest mobile network quality.

In the fixed network, fibre optic access was enabled for 171 thousand households. Broadband access at bitrates of a minimum of 30 Mbp/s was made available to 50% of households, in comparison to 34% of households in 2014. Also, Internet speeds of 400 Mbps were tested, employing G.fast technology, which will enable a large step forward in further development of services in our portfolio. Furthermore, we have significantly increased customer satisfaction in all areas, from the first line of communication, over network quality, to the final product.

HT is actively participating in the Deutsche Telekom's PAN IP programme used for development of a unique service production platform. The first Pan-European service, Cloud VPN, was developed by HT's experts; the service was launched concurrently in three countries: Croatia, Hungary, and Slovakia.

With the surge in investment in 2015, we maintained stable EBITDA before exceptional items that amounted to HRK 2,78 billion in 2015, along with a strong EBIDTA margin at 40,2%. Net cash flow from operations increased by 3,1% and amounted to HRK 2,37 billion. In 2015, net profit showed a decrease, amounting to HRK 925 million, mainly due to higher taxation and depreciation after increased investment.

For the financial year 2015, the Management Board and the Supervisory Board have made a proposal to the General Assembly that dividend be paid out in the amount of HRK 6 per share. The total dividend amount is HRK 491,3 million, representing 55% of the net profit of HT d.d., an increase of 4,3 percentage points over the last year's rate.

As previously announced, HT will, at the beginning of each year, announce a minimum target dividend for each year that will be within the Dividend Policy range. For the financial year 2016, the Management Board currently expects the payment of dividends to a minimum amount of HRK 6.00 per share.

In 2016, we will continue to invest in infrastructure development and business transformation, and we will focus our technological know-how and expertise on innovation and further improvement of customer experience. Also, we will continue eyeing opportunities for potential expansion of Hrvatski Telekom's operations in Croatia and the region, which will be communicated to you, the shareholders, in a timely and detailed fashion.

By the surge in investment in 2015, we have created firm foundations for long-term sustainable growth , which is in the interest of both our shareholders and our employees, but also in the interest of the overall Croatian economy where HT will continue to play one of the most important roles.

I would like to thank all of you, our shareholders, for your trust in us, and all the employees and Members of the Management Board and the Supervisory Board for their dedicated work. An exciting and challenging business year lies ahead of us, but I expect that results will surely come.

Davor Tomašković
President of the Management Board of Hrvatski Telekom d.d.

CORPORATE PROFILE

At a Glance

HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services.

The core activities of Hrvatski Telekom d.d. (HT d.d. or the Company) and its subsidiary companies comprise the provision of electronic communications services and design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet, IPTV and ICT services, data transmission services (lease of lines, Metro-Ethernet, IP/MPLS, ATM), operating with GSM, UMTS and LTE mobile telephone networks.

History and Incorporation

Hrvatski Telekom d.d. is a joint stock company, majority owned by Deutsche Telekom Europe B.V. It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT - Hrvatska pošta i telekomunikacije (HPT s.p.o.) was separated and transferred into two new joint stock companies, HT - Hrvatske telekomunikacije d.d. (HT d.d.) and HP - Hrvatska pošta d.d. (HP d.d.). The Company commenced operations on 1 January 1999.

Pursuant to the terms of the Law on Privatization of Hrvatske telekomunikacije d.d. (hereinafter referred to „LoP“) (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold a 35% stake in HT d.d. to Deutsche Telekom AG (DT AG), and on 25 October 2001, DT AG purchased a further 16% share in HT d.d. and thus became the majority shareholder with a 51% stake. Pursuant to the Share Transfer Agreement, in December 2013, DT AG transferred 51% of its shares in the Company, to T-Mobile Global Holding Nr. 2 GmbH. Pursuant to the Deed of issuance of a share against non-cash contribution, in February 2014, T-Mobile Global Holding Nr. 2 GmbH transferred 51% of the shares in the Company, to CMobil B.V. In April 2015, CMobil B.V. changed its registered name into Deutsche Telekom Europe B.V. The above mentioned transfers of shares were executed as a part of the internal restructuring performed within DT AG and as a result thereof, DT AG's influence in HT d.d. remains unchanged.

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's name was officially changed to T-Mobile Croatia d.o.o. (T-Mobile). On 1 October 2004, the Company was re-branded in T-HT, thus becoming a part of the global “T“ family of Deutsche Telekom. This evolution of the corporate identity was followed by the creation of trade marks for the two separate business units of the Group: the fixed network operations business unit, T-Com - which also provided wholesale, Internet and data services; and the mobile operations business unit, T-Mobile. 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the LoP. In May 2006, the Company acquired 100% of shares of Iskon Internet d.d., one of the leading alternative telecom providers in Croatia. In the continuation of the privatization of HT d.d., on 5 October 2007, the Republic of Croatia sold 32,5% of HT ordinary shares by Initial Public Offering (IPO). Of the total shares in the Offering, 25% were sold to Croatian retail investors, while 7,5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9,5% to 3,5%, giving private and institutional investors 38,5% in total.

In October 2009, T-Mobile Croatia was merged into HT d.d., effective as of 1 January 2010. Group was organized into Residential and Business units. The Company's registered name was changed from HT - Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d. on 21 May 2010. On 17 May 2010, HT d.d. completed the acquisition of IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments.

In December 2010, the Republic of Croatia transferred 3,5% of its shares in the Company, to the Pensioners' Fund. On 12 December 2013, the Pensioners' Fund transferred 3,5% of shares in the Company to the account of the Restructuring and Sale Center – CERP. CERP was founded by the Republic of Croatia in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Republic of Croatia again holds a stake in Hrvatski Telekom d.d. In December 2015, following the public auction, CERP sold 500,000 of its shares in the Company (0,6% of HT d.d. share capital) via Zagreb Stock Exchange trading system. Following this sale of shares CERP reduced its holding from 3,5% to 2,9%.

In June 2014 HT took over management of OT-Optima telekom (“OT”), following the completion of the pre-bankruptcy settlement procedure. By the conversion of claims into share capital, and following the realization of a Mandatory Convertible Loan instrument in July 2014, HT has acquired total of 19,1% of Optima's share capital.

Zagrebačka banka, as the largest creditor of Optima Telekom, transferred controlling rights acquired in the pre-bankruptcy settlement procedure to HT. AZTN, Croatian competition agency, has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima Telekom. The duration of the concentration of HT and Optima Telekom shall be limited to a period of four years, starting from HT's acquisition of control over Optima Telekom.

INVESTOR INFORMATION

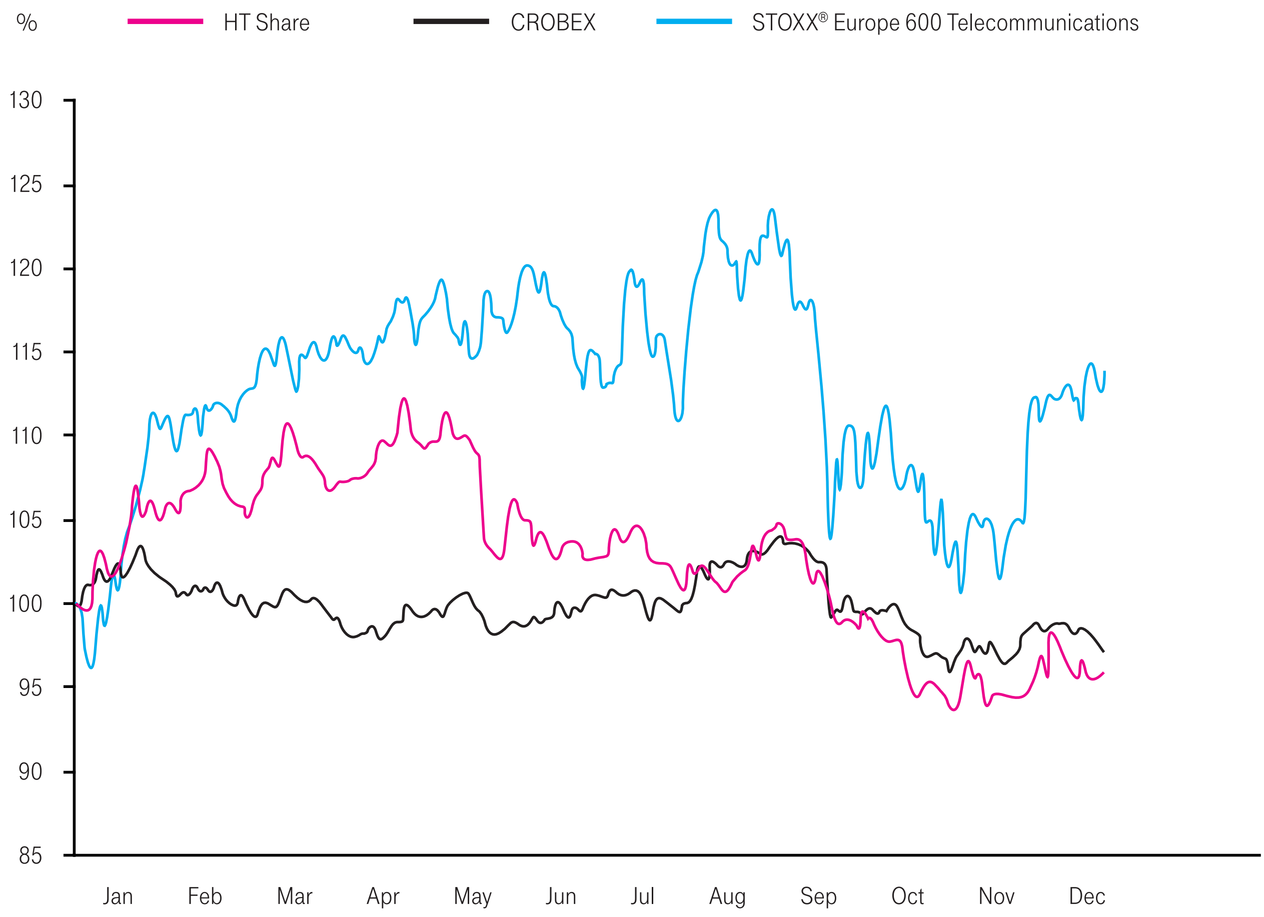
Economic environment and share price performance

2015 was a year of global uncertainty and volatile capital markets, with a strong overall correction in valuations during the third quarter, mainly following concerns on China's economic growth, a rise in interest rates and movements in oil prices. Most major indices ended the year in negative territory, with, for example, Dow Jones IA down 2% and FTSE 100 falling 5%.

Despite Croatia's long awaited exit from a period of recession lasting six years and mildly positive GDP forecasts for the coming years, sentiment on CROBEX, Croatia's benchmark index, remained downbeat. It closed the year down 3%, but with a relatively stable performance across the entire year.

HT shares ended the year at HRK 144,40, down 4,1% on the HRK 150,50 closing price at the end of 2014. The price decline was primarily seen in the second quarter of the year, following the ex-dividend date and in the third quarter following above mentioned global correction in equity markets. The year's highest price was HRK 170,00, with the lowest being HRK 139,00 (Source: Zagreb Stock Exchange).

HT Share as compared to CROBEX and STOXX® Europe 600 Telecommunications Index, 1 January 2015 - 31 December 2015



Whilst volumes traded were down 31% from the previous year, HT was once again the most traded share on the Zagreb Stock Exchange, with HRK 352 million of turnover, accounting for 14,7% of the ZSE's total trade by value of shares in 2015 (2014: HRK 507 million, 18,8%).

In terms of free float market capitalisation, as at 31 December 2015, HT was the largest company on the ZSE with HRK 5,0 billion (EUR 656,4 million), representing 16,5% of the total free float market capitalization by value (Source: Zagreb Stock Exchange).

At the last revision of the CROBEX index in September 2015, HT's weighting was again set at 10% of the index.

Since its initial public offering in October 2007, HT shares have traded on the Zagreb Stock Exchange, with Global Depositary Receipts trading on the London Stock Exchange until the delisting and termination of the GDR facility on 6 October 2014. The shares will continue to be listed and tradable on the Zagreb Stock Exchange.

In October, at a conference of the Zagreb Stock Exchange and Croatian investment fund management industry, HT was ranked second in the Investor Relations Award in Croatia in 2015, sponsored by popular business newspaper Poslovni dnevnik.

In November, at the 5th Regional Investor Conference in Belgrade, as part of the 14th International Conference of the Belgrade Stock Exchange, organized in cooperation with the investment company Wood & Company from Prague, HT shared second place in the category for the Best Regional Investor Relations Award in 2015 (2014: first place). A regional rating of listed companies was conducted for the second time, incorporating 16 companies from four countries this year.

In December, at the presentation ceremony of the Zagreb Stock Exchange Awards for 2015, HT received the award for the "Share with highest turnover" for the fourth consecutive year.

Dividend policy

The dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007:

> The future dividend policy should be that any dividends declared and paid in respect of any year following the year in which Offering takes place, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

Dividend for the 2014 financial year

On 29 April 2015, the General Assembly of the Company approved a dividend payment to shareholders of HRK 573,192,228.00 (HRK 7.00 per share) representing a dividend payout ratio of 50,4% from the Group's net profit. The dividend was paid in May 2015.

At the end of 2015, this represented a dividend yield of 4,8% on HT's closing price of HRK 144,40.

Dividend proposal for financial year 2015

The Management Board and Supervisory Board of Hrvatski Telekom d.d. proposes to this year's General Assembly the distribution of a dividend of HRK 6.00 per share which will be paid from Company's 2015 financial year net profit, resulting in a total dividend payment of HRK 491,307,624.00, and allocation of the remainder of the net profit of HRK 355,176,116.25 to retained earnings.

The General Assembly is planned to be convoked for 21 April 2016. According to the proposal, the above mentioned dividend will be paid to shareholders on 16 May 2016 (payment date), registered at the Central Depository and Clearing Company (SKDD) on 4 May 2016 (record date).

Dividend proposal for financial year 2016

As previously communicated, HT will in the future, at the beginning of the year, announce a minimum target dividend for each year, within the above mentioned policy range.

The Management Board currently expects to pay out a minimum dividend of HRK 6.00 per share.

Taxation of dividends, at the rate of 12%, was introduced as of 1 March 2012 while capital gains tax at the same rate was introduced as of 1 January 2016 (capital gains tax will not be levied on shares acquired after 1 January 2016 and held for more than three years).

Shareholder Structure as at 31 December 2015.

Deutsche Telekom Europe B.V.	51,0%
Raiffeisen Mandatory Pension Funds	8,7%
War Veterans' Fund	7,0%
Restructuring and Sale Center (CERP)/ Republic of Croatia	2,9%
Private and other institutional investors	30,4%

Total number of shares issued: 81,888,535

Deutsche Telekom Europe B.V. is the majority shareholder in HT with a 51% holding (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr.2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).

The Croatian War Veterans' Fund owns 7%, with the Restructuring and Sale Center (CERP)/Republic of Croatia holding 2,9%.

The remaining 39,1% is owned by Croatian citizens and other domestic and foreign institutional investors. Raiffeisen Mandatory Pension Funds (Raiffeisen obvezni mirovinski fondovi) is the investor with the largest shareholding among private and institutional investors. As at 31 December 2015, Raiffeisen Mandatory Pension Funds had 8,7% of shares of the Company.

Financial Calendar

	Date
Release of full year 2015 results	February 24, 2016
The General Assembly of the Company	April 21, 2016
Release of first quarter 2016 results	April 28, 2016
Release of first half 2016 results	July 28, 2016
Release of first nine months 2016 results	October 27, 2016

The above-mentioned dates are subject to change

General information on Shares

Share ISIN:	HRHT00RA0005
ZSE Share trading symbol:	HT-R-A
Reuters:	HT.ZA
Bloomberg:	HTRA CZ
Number of Shares:	81,888,535
Type:	Ordinary share
Nominal value:	No nominal value

Investor Relations

Investor Relations
Hrvatski Telekom d.d.

Roberta Frangeša Mihanovića 9
10000 Zagreb

Tel.: +385 1 49 12000, +385 1 49 11114
Fax: +385 1 49 12012
E-mail: ir@t.ht.hr

MANAGEMENT BOARD

DAVOR TOMAŠKOVIĆ
President of the Management Board (CEO)

Davor Tomašković was born in Vinkovci, Croatia in 1969. He graduated as an electrical engineer from the University of Zagreb in 1994. He subsequently completed an MBA program at Bocconi University in Milan, Italy, graduating summa cum laude in 1997. For over a decade Mr. Tomašković has occupied top positions at some of the most prominent Croatian companies.

Following his graduation as an engineer he was employed at the Croatian Ministry of Science and Technology implementing the first internet network for academia. After his graduation from Milan, he worked in Austria, at the consultancy firm McKinsey & Company.

In 2002 Mr. Tomašković returned to Croatia assuming the post of Director of Corporate Strategy and Business Development at Hrvatski Telekom.

In 2004 he was appointed President of the Management Board of Tisak, a leading Croatian distribution and retailing company. Subsequent to successful implementation of an extensive restructuring process at Tisak, he assumed position of President of the Management Board of TDR, the regional tobacco industry leader, which position he has occupied for the past seven years.

On 1 January 2014 Mr. Tomašković was appointed to the position of President of the Management Board of HT d.d.

NATAŠA RAPAIĆ
Member of the Management Board and Chief Operating Officer Residential

Ms Rapaić was born in 1969 in Zagreb. She graduated from the Faculty of Economics in Zagreb in 1993 and completed MBA studies at IE in Madrid in 2000. Ms Rapaić has gained professional experience working in various positions of responsibility. She was a co-founder and director of export/import operations in the company Milna Parket, economic analyst in the Economic Office at the Embassy of Spain, where she worked on research into the Croatian market and boosting economic cooperation between the two countries, and worked as a financial analyst in the investment department of the bank Grupo Caixa Galicia.

Ms Rapaić acquired marketing experience in the telecom industry working as a consultant at Madrid-based Europraxis Consulting and on various projects for the marketing sector of Telefónica Móviles.

She joined Hrvatski Telekom in 2003 as the Executive Director of the Sub-Unit Responsible for Communications. On 1 September 2005 she was appointed Member of T-Com Executive Board and Chief Marketing Officer.

In 2010 she took over the position of the Operating Director of the Residential Marketing Sector and on 1 February 2013 was appointed to the position of Member of the Management Board of HT d.d. and Chief Operating Officer Residential.

MANAGEMENT BOARD

THORSTEN ALBERS
Member of the Management Board and Chief Technical and Information Officer

Member of the Management Board and Chief Technical and Information Officer (CTIO) Thorsten Albers was born in 1967. He graduated in 1992 as an electrical engineer specialized in communication and information technology from Fachhochschule Wilhelmshaven. Throughout his career he acquired a number of Cisco and Nortel/Bay certificates in relevant areas.

Mr. Albers has been employed in Deutsche Telekom Group for a number of years where he gained rich professional experience on various advisory and managerial functions in the technical segment in Germany, Hungary and Macedonia. He speaks German, English, Hungarian and basic French.

From 2003 Mr. Albers was responsible for the coordination of projects of the Management Board member and CTO in Magyar Telekom on the Deutsche Telekom level. He joined Makedonski Telekom in 2008 as Management Board member and CTO and, from 2011 up to joining Hrvatski Telekom, he was CTO of Makedonski Telekom and T-Mobile Macedonia. As the leading man for technology in Makedonski Telekom, Mr. Albers played a key role in the successful implementation of the IP migration project.

The Supervisory Board of HT appointed him as the Member of the Management Board and Chief Technical and Chief Information Officer of Hrvatski Telekom. Mr. Albers took over this position as of 1 May 2014.

Dr. KAI-ULRICH DEISSNER
Member of the Management Board and Chief Financial Officer

Member of the Management Board and Chief Financial Officer (CFO) Kai-Ulrich Deissner was born in Johannesburg, South Africa in 1968. He trained in journalism and editorship before finishing undergraduate studies in English, German and Modern History on the Free University in Berlin. As a member of the German Scholarship Foundation dr. Deissner was awarded his PhD degree in 1998 from Cambridge University and subsequently completed a management programme in St. Gallen, Switzerland, in 2003.

Dr. Deissner began his career in interactive services and media, first as Head of News for Focus Online, later on assuming positions in Financial Times, Pixelpark and AOL in Hamburg. Joining Deutsche Telekom in 2004, he has since gained significant experience in senior managerial positions, with roles including Vice President Product Management, Senior Vice President Sales Channel Management and Chief Financial Officer of Deutsche Telekom Kundersevice. Dr. Deissner's most recent position within the DT Group was as Board Representative Operations, where he assumed responsibility for the day to day steering of customer operations and transformational process design. The Supervisory Board of HT has appointed Dr. Kai-Ulrich Deissner as a Member of the Management Board and Chief Financial Officer for a period of three years, with effect from 1 August 2014.

MANAGEMENT BOARD

BORIS BATELIĆ
Member of the Management Board and Chief Customer Experience Officer

Boris Batelić was born in 1973 in Pula. He graduated from the Faculty of Electrical Engineering and Computing in 1998 in Zagreb, and in 2010, he earned his EMBA degree at the Cotrugli Business School in Zagreb. He started his professional career with Hrvatske telekomunikacije d.d. in 1999, in the technical services area.

In 2001, he advanced to the position of Key Account Manager, and in 2007, he was appointed Executive Director of Region West. In the period from 2010 to 2014, he was holding the position of Operating Director for Service Development and Network Systems. In March 2014, he took on responsibilities for implementation of the PSTN project, and in April of the same year, he was appointed Customer Technical Services Sector Director.

In May 2014, he was temporarily entrusted with activities falling within the scope of competence of the Member of the Management Board and Chief Customer Experience Officer, and was appointed to this function as from 1 May 2015.

MARIJA FELKEL
Member of the Management Board and Chief Human Resources Officer

Marija Felkel was born in Zagreb in April 1973. She graduated from University of Zagreb, Faculty of Law, in 1998. As a lawyer by education, she began her professional life in public administration and very soon became a specialist in labour law. In 2004, she joined Siemens Croatia.

In this international corporation, over a period of more than ten years of work, she was responsible for all HR processes, leading a broad range of projects in the area of human resources. Particularly outstanding are the results in drawing HR functions nearer to business functions; under her leadership, the HR function truly developed into a recognised partner of the company's business management.

This way, she gained rich experience, having held all managerial positions – from Personnel Administration Manager to Head of Human Resources. Moreover, Ms Felkel achieved remarkable results in leading international projects, and she has been at the helm of the entire Adriatic Region Group at Siemens. She is particularly active in the work with young people, in cooperation with faculties, secondary and elementary schools, pointing out the importance of education and constant development.

Ms. Felkel is an active member of the HR Manager Association; she is promoting the HR function in the organisation as a recognised business partner that contributes to the organisation's success, advancing decisions that have an impact on employees as the company's most valuable resource.

The Supervisory Board of Hrvatski Telekom has appointed Marija Felkel Member of the Management Board and Chief Human Resources Officer, for a period of three years; she will hold this position as of 18 January 2016.

Compensation to the Management Board members in 2015

Davor Tomašković, President of the Management Board and CEO, was paid a fixed and variable salary in gross amount of HRK 3,494,210. Other benefits amounted gross to HRK 82,244 (company car usage). The gift for children was paid in amount of HRK 1,200 net.

Nataša Rapaić, Member of the Management Board and COOR, was paid in 2015 a fixed and variable salary and Long term incentive Plan (LTIP 2011) in gross amount of HRK 2,010,134. Other benefits amounted gross to HRK 52,433 (company car usage). The gift for child was paid in amount of HRK 600 net.

Boris Batelić, Member of the Management Board and CCO from 1st May 2015, was paid in 2015 a fixed salary in gross amount of HRK 619,779. Other benefits amounted gross to HRK 137,785 (company car usage). The gift for children was paid in amount of HRK 1,200 net.

Irena Jolić Šimović, Member of the Management Board and CHRO until 30th April 2015, was paid in 2015 a fixed and variable salary in gross amount of HRK 1,091,149. Other benefits amounted gross to HRK 18,119 (company car usage). When leaving the company severance payment was paid in amount of HRK 3,433,228 gross.

Thorsten Albers, Member of the Management Board and CTIO, was paid in 2015 fixed and variable salary in gross amount of HRK 3,250,216. Other benefits amounted gross to HRK 763,463 (insurance, apartment rental and company car usage).

Dr. Kai-Ulrich Deissner, Member of the Management Board and CFO, was paid in 2015 fixed and variable salary in gross amount of HRK 2,391,586. Other benefits amounted gross to HRK 276,785 (insurance, apartment rental and company car usage).

Jens Gerhard Hartmann, Member of the Management Board and COOB until 29th July 2015, was paid in 2015 fixed and variable salary in gross amount of HRK 2,034,659. Other benefits amounted gross to HRK 497,534 (insurance, apartment rental and company car usage).

Long Term Incentive Plans for management

Long-term incentive plans HT Variable II 2012, HT Variable II 2013, HT Variable 2014 and Lead to Win 2015, exist at Group level to ensure competitive total compensation for members of the Management Board and senior executives. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders.

HT Variable II 2011 ended on 31 December 2014, and the Supervisory Board has determined final target achievement of 5,8% and awarded amount of HRK 12,506.25 were paid to plan participants in August 2015.

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 1st of January every year. Upon expiry of the term of the plan, the Supervisory Board shall determine whether each of the targets has been achieved and adopted appropriate decision.

The Variable II amount awarded to International Business Leaders (BLT's) is fixed sum specified in the individual employment contract, while to other participants rewarded amount 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.

In December 2014, HT Supervisory Board adopted participation in a new performance management model "Lead to win" for HT senior management as one of the of companies within DT group, which applies from 1st of January 2015. Rewarding of top management is directly linked to individual performance and the achievement of collective KPIs performance on level of the DT Group. It is therefore introduced a corporate plan instead of many isolated individual plans.

LTI (Long term incentive) as part of Lead to Win Program 2015 are cash based plan and awarded amount depends on Management Group (MG 1 - MG 3) to which positions of participant belongs and on individual performance. Participants can be only those who meet at least performance rating 3 (score range is from 1 to 5). The participation amount shall be from 10% to 30% of the annual target salary depending on MG and on individual performance rating. The plan currency shall be euros, and four defined success parameters are DT parameters and they are: ROCE (Return on Capital Employed), Adjusted EPS (Earnings per Share), Customer satisfaction and Employee satisfaction. The success parameters have achievement corridor of between 0% and 150%. The term of LTI shall cover the period from January 1, 2015 to December 31, 2018.The HT Supervisory Board shall declare the target achievement after the end of each year of the plan period.

As a part of Lead to Win Program 2015, Share Matching Plan (SMP) was also introduced, Share Matching Plan for managers in Managements Groups MG1, MG2 and MG3. The criteria for participation in the SMP is the executive's overall performance. Plan participants purchase shares in DT before the start of the plan ("voluntary personal investment"). The amount of the voluntary personal investment is between 10% ("minimum amount") and a third ("maximum amount") of the gross payment amount of the 2014 Short Term Incentive (STI) (Variable I) (payment in 2015) and is determined by the plan participant on acceptance of the DT offer. The term of the 2015 SMP shall cover the period from July 1, 2015 to June 30, 2019. The shares in DT purchased as part of the voluntary personal investment shall be held uninterruptedly by the plan participant from the beginning of the plan to the end of the plan ("lock-up period"). At the end of the plan term the plan participant shall be granted DT shares free of charge based on the personal performance of the plan participant. Share matching Plan is obligatory for the President of the Management Board and voluntary for Management Board members.

SUPERVISORY BOARD

Mark Klein	Chairman	Member from 25 April 2012 Chairman from 10 September 2012
Ivica Mišetić, Ph. D.	Deputy chairman	Member from 21 April 2008 Deputy chairman from 8 May 2008
Dr. Ralph Rentschler	Member	Until 15 December 2015
Dr. Oliver Knipping	Member	From 25 April 2012
Mark Nierwetberg M. A.	Member	From 17 June 2013
Ilias Drakopoulos, Ph. D.	Member	From 17 June 2013
Juko Cikojević	Member, workers' representative	Until 31 December 2015
Vesna Mamić	Member, workers' representative	From 1 January 2016
Damir Grbavac	Member	From 25 April 2012
Dolly Predovic	Member	From 29 April 2014
Marc Stehle	Member	From 16 December 2015

Compensation to the members of the 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, 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, in 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, in 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, in 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.

Compensation to the Supervisory Board members in 2015

		The period of 2015 in which the allowance was paid		
		From	**To**	**Gross (HRK)**
Juko Cikojević	SB member	1st January	31st December	171,186
Dolly Predovic	SB member	1st January	31st December	201,144
Ivica Mišetić	SB member	1st January	31st December	213,983
Total				**586,313**

SUPERVISORY BOARD REPORT

Pursuant to Article 263, paragraph 3, and Article 300.c of the Companies Act and Article 31 of the Articles of Association of Hrvatski Telekom d.d., the Supervisory Board of Hrvatski Telekom d.d. Zagreb, Roberta Frangeša Mihanovića 9, (hereinafter referred to as "the Company"), consisting, on the day of issuance of this report*, of Mr. Mark Klein, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Dr. Oliver Knipping, Mr. Marc Stehle, Mr. Ilias Drakopoulos, Ph.D., Mr. Mark Nierwetberg, Ms. Dolly Predovic, Mr. Damir Grbavac and Ms. Vesna Mamić, submits to the General Assembly this

REPORT

on performed supervision during the business year 2015 and on the results of the examination of the business and financial reports for the business year 2015

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2015,
- the results of the examination of the annual financial statements as of 31 December 2015 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2015,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

On 31 December 2015 significant Company shareholders are as follows.

Deutsche Telekom Europe B.V. is the majority shareholder with a 51 per cent holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr.2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG).

The Croatian War Veterans' Fund owns 7,0% [1] of shares and Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), legal successor to the Government Asset Management Agency, owns 2,9% of shares of the Company. The remaining 39,1% of shares are owned by Croatian citizens and by other domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds (category A and category B) are investors with the largest shareholding among the private and institutional investors, with a 8,7% holding in the Company.

An up to date list of the top ten shareholders of the Company may be found on the Central Depository & Clearing Company web site.

The shares of the Company are included in depository services of the Central Depository & Clearing Company as of 12 July 2002.

The Company's shares have been listed on the Zagreb Stock Exchange since 5 October 2007.

Supervisory Board

The Supervisory Board consists of nine members, five members representing Deutsche Telekom AG, one member nominated by the Raiffeisen Mandatory Pension Funds, two independent members and one member appointed by the Workers' Council of HT d.d.

During 2015, the composition of the Supervisory Board of the Company changed as follows:

The term of office of Supervisory Board Member, Dr. Ralph Rentschler, and also Member of the Compensation and Nomination Committee of the Supervisory Board, expired on 15 December 2015.

Mr. Marc Stehle was elected as new Member of the Supervisory Board as of 16 December 2015.

The Workers' Council appointed Ms. Vesna Mamić as new Member of the Supervisory Board, Workers' Representative, with commencement of her term of office as of 1 January 2016. Thereby, the last day of the term of office of the former Workers' Representative in the Supervisory Board, Mr. Juko Cikojević, was 31 December 2015.

On 19 February 2016, the Supervisory Board has received the resignation of the Member of the Supervisory Board, Mr. Mark Nierwetberg, with effect as of the closing of the first regular General Assembly in the year 2016.

The Supervisory Board, at its todays' session, made the proposal to the General Assembly for election of Ms. Evelyn Jakobs as new Member of the Supervisory Board, instead of Mr. Mark Nierwetberg. In addition to this proposal, and given the fact that the terms of office of the Members of the Supervisory Board, Mr. Mark Klein, Mr. Ivica Mišetić, Ph.D., Dr. Oliver Knipping and Mr. Damir Grbavac are to expire on 25 April 2016, the Supervisory Board proposed to the General Assembly that they are re-elected as Members of the Supervisory Board for a period of four years, following the expiry of their current terms of office.

Audit Committee

During 2015, Mr. Axel Brandes, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Franco Musone Crispino, Member, were the

* Day of issuance of this report is the day of holding of the Supervisory Board session at which the Report was adopted, i.e., 23 February 2016.

[1] On the day of the issuance of this Statement the Croatian War Veterans' Fund reduced its holding from 7% to 6.8%.

members of this Committee.

Mr. Axel Brandes resigned from his position of Chairman of the Audit Committee, effective as of 31 December 2015, and the Supervisory Board appointed Mr. Klaus-Peter Kneilmann as the new Chairman of the Audit Committee, as of 1 January 2016.

On 22 February 2016, the Supervisory Board received the resignation of Mr. Franco Musone Crispino from his position of Member of the Audit Committee, effective as of 1 March 2016, and the Supervisory Board, at its todays' session, appointed Mr. Marc Stehle as the new Member of the Audit Committee, as of 1 March 2016.

Compensation and Nomination Committee

On the day of issuance of this report Mr. Mark Klein, Chairman, Mr. Mark Nierwetberg, Member, and Ms. Dolly Predovic, Member, are the members of this Committee.

Following the exit of the Member of the Compensation and Nomination Committee, Dr. Ralph Rentschler, the Supervisory Board appointed Mr. Mark Nierwetberg as the new Member of this Committee, as of 16 December 2015.

Mr. Mark Nierwetberg also resigned from his position of Member of the Compensation and Nomination Committee, with effect as of the closing of the first regular General Assembly in the year 2016.

Management Board

On the day of issuance of this report the Management Board of the Company has six members, whereby the position of Chief Operating Officer Business (COO Business) is vacant, and activities falling within these Officers' responsibilities are temporarily assigned to the function of the President of the Management Board and CEO, Mr. Davor Tomašković.

The following section lists the changes in the Management Board membership:

Ms. Irena Jolić Šimović resigned from her position of Member of the Management Board and Chief Human Resources Officer (CHRO), effective as of 1 May 2015.

Mr. Boris Batelić was appointed as Management Board Member and Chief Customer Experience Officer (CCO), as of 1 May 2015.

Mr. Jens Hartmann resigned from his position of Member of the Management Board and Chief Operating Officer Business (COO Business), effective as of 30 July 2015.

Ms. Nataša Rapaić was re-appointed as Management Board Member and Chief Operating Officer Residential (COO Residential), for another term of office, with commencement as of 1 February 2016.

Ms. Marija Felkel was appointed as Member of the Management Board and Chief Human Resources Officer (CHRO), effective as of 18 January 2016.

At the todays' session Dr. Kai-Ulrich Deissner submitted his resignation from the position of Member of the Management Board and Chief Financial Officer (CFO), effective as of 1 April 2016. The Supervisory Board decided on the temporary re-distribution of the Officers' responsibilities, and temporarily assigned the responsibilities of Management Board Member for Finance to the function of the President of the Management Board and CEO, Mr. Davor Tomašković, until the appointment of new Management Board Member.

Performed supervision during the business year 2015

In 2015, there were five sessions of the Supervisory Board and two decision makings out-of-session.

The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company and the By-Laws on the Work of the Supervisory Board of the Company.

Aside from the regular reports of the Management Board on the results and status of business operations of the Company and joint consultations on business development, major topics listed below were discussed in detail, and the Supervisory Board provided respective prior approvals, when required, and recommendations:

- Transformation activities and Horizont strategic program,
- Redesigned portfolio of services that influences market recovery,
- Utilization of the FTTH VDSL technology,
- HT's engagement in PAN IP program directed at creating a Pan-European integrated service production platform and production environment,
- Fully completed IP Transformation Migration,
- Increased investment activities of the Company focused on development of high-speed Internet access infrastructure,
- Customer satisfaction and Employee satisfaction initiatives,
- HR accomplishments and challenges, plans and activities, performance management system, etc.,
- Corporate Governance topics and membership of the Management Board as described above,
- Proposals for the General Assembly,
- International activities of the Company, i.e. B&H activities and performances of HT Mostar,
- Business Plans for 2016 and onwards,
- Reports and proposals of the Compensation and Nomination Committee on target-setting and target-achievement of the Company and its management and remuneration proposals for MB Members,
- Reports of the Audit Committee,
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange,
- Financial performance of the Company in 2015, stabilized after several years.

In 2015, the Audit Committee of the Supervisory Board held five regular sessions and discussed various topics, in particular:

- 2014 year-end closing of HT Group,
- Quarterly financial results of HT Group,
- External Auditor's Report,
- Risk Reporting for HT Group,
- Reports of the Compliance officer,
- Implementation and effectiveness of internal control over financial reporting,
- Internal Control System optimization,
- Annual audit program 2015 execution,
- Supervision over the realization of audit measures,
- Set up of Annual audit program 2016.

According to the above listed, Audit Committee finds that in relation to financial reporting, risk management, compliance management system, internal and external audit engagement, there is no indication that internal control system does not work effectively.

Results of the examination of the Management Board report on relations with the governing company and affiliated companies thereof

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Dependent Company), compiled in accordance with Articles 474 and 497 of the Companies Act and in accordance with the principles of conscientious and truthful reporting.

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2015 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

The Company's auditor, PricewaterhouseCoopers d.o.o. Zagreb, reported on the results of its audit and issued the clean confirmation on the audit of the above report, as decribed in continuation.

Report of Independent Accountants

The Company's auditor, PricewaterhouseCoopers d.o.o. Zagreb, reported on the results of its examination of the above report in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Information". Based on the results of their work as described in their audit report, the auditor concluded that nothing has come to their attention that causes them to believe that the above report is not presented, in all material respects, in accordance with the criteria as set out in Article 497 of the Croatian Companies Act.

The Supervisory Board has no objections to the results of the auditor's examination and statement of the Management Board as listed above.

The Supervisory Board states that the Company, according to the circumstances that were known at the time of undertaking the legal affairs and actions stated in the said Management Board Report, received a respective counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2015 and the proposal on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements for the year 2015.

The Supervisory Board, after considering the audited financial statements for the business year 2015, established that the Company acted in 2015 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2015.

The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The said financial statements are considered adopted by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2015 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit is in accordance with the business results, is in accordance with the business plan for the current year, protects the Company's and shareholders' interests and is in accordance with the positive regulations of the Republic of Croatia.

Therefore, the Supervisory Board gave its consent to the proposal of the Management Board on the distribution of the net profit from 2015, and that is, that a part of the net profit in the amount of HRK 491,307,624.00 shall be paid out as dividend to shareholders, in the amount of HRK 6.00 per share, a part of the net profit in the amount of HRK 47,000,000.00 is to be allocated to legal reserves, and the remainder of net profit in the amount of HRK 355,176,116.25 is to be allocated to retained earnings.

The joint proposal by the Management Board and the Supervisory

Board on the utilization of profit for 2015 is to be referred to the General Assembly of the Company for decision making.

Summary

The Management Board of the Company regularly informed the Supervisory Board of the Company's business, status of assets and liabilities, revenues, and organizational and other changes related to the management of the Company's business operations.

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2015.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the financial indicators, it was assessed that targets set for 2015 were reached. Financial outlook was achieved, long-term negative trends on revenue and profitability were reversed, and the Company is reporting year-on-year revenue growth and effective EBITDA stabilization. Results of HORIZONT program are visible in terms of costs savings, improved customer experience, relevant changes introduced in fixed and mobile services, and better utilization of the technology as well as in the continuation of marketing innovation that influences market recovery. HT Group maintains a leading position in the Croatian telecommunications market across all business segments in 2015 in spite of strong regulatory environment and increasing competitive pressure.

This report shall be delivered to the General Assembly of the Company.

Mark Klein
Chairman of the Supervisory Board

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Hrvatski Telekom d.d. (hereinafter referred to as "the Company"), in accordance with Article 250b, paragraphs 4 and 5, and Article 272p of the Companies Act ("Official Gazette" Nos. 111/93, 34/99, 121/99, 52/00 – Decision of the Constitutional Court of RoC, 118/03, 107/07, 146/08, 137/09, 152/11 – clean text, 111/12, 68/13 and 110/15), issues the Corporate Governance Code Compliance Statement.*

The Company applies the Zagreb Stock Exchange Corporate Governance Code, published on the web-site of the ZSE (www.zse.hr) and on the web-site of the Croatian Financial Services Supervisory Agency, HANFA (www.hanfa.hr).

The Company complies with the recommendations of the Code, with the exception of those that were not, or are not practical for the Company to implement at the relevant time. These exceptions are as follows:

- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Shareholders who are not in a position to vote in person at the Assembly by themselves should at their own discretion determine suitable proxies who are obliged to vote in compliance with the shareholders' instructions (Part 2.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate by means of modern communication technologies. Such participation will be implemented in the future to the extent that it is practical (Part 2.6.).
- The Supervisory Board is not composed mostly of independent members. Two out of nine Supervisory Board members are independent members (Part 4.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members' contribution to the Company's business performance (Part 4.7.).
- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 4.12.1. and 4.12.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board. Two remaining Committee members are external experts (one of which is a financial expert, the other is an internal audit expert), both are employees of Deutsche Telekom AG (Part 4.12.3.).
- The Supervisory Board did not prepare an evaluation of its performance in the preceding period (Part 4.16.).
- The remuneration strategy adopted for Management Board and Supervisory Board members is based on the Global Compensation Guidelines of Deutsche Telekom Group. The Statement on the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The data on the remuneration of the Management Board and the Supervisory Board is disclosed within the Annual Report (Part 6.3.).

Internal control and risk management

The principal responsibilities of the Audit Committee of the Supervisory Board are the preparation of the decisions of the Supervisory Board and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within the Company. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

The Audit Committee is authorized to:

- request the necessary information and supporting documentation from the management and senior employees of the Company and from external workers,
- participate at meetings held within the Company on issues that fall under the scope of activities and responsibilities of the Audit Committee,
- appoint advisors to the Audit Committee on a permanent basis or case by case if needed,
- obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfillment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent audit and control function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). The Internal Audit Charter is a strategic document for internal audit performance which defines framework and main principles necessary for the work of internal audit function in HT Group.

Main tasks of Corporate Internal Audit as defined in the Internal Audit Charter are:

- tests, analyses, evaluates, and communicates data in independent and objective manner in order to add value and improve Company's operations,
- supervises the organization, management and functioning of a unique system of internal control in the Company in order to improve the effectiveness of risk management, control and governance process,
- reviews the application of laws, by-laws and general acts of the Company during audits,

*The Statement was issued on 23 February 2016, when it was adopted jointly by the Management Board and Supervisory Board.

- recommends preventive measures in the area of financial reporting, compliance, business and control in order to eliminate risks and eventual deficiencies that could lead to process ineffectiveness, inefficiency or fraud.

Significant company shareholders

As at 31 December 2015, significant Company shareholders are as follows:

- Deutsche Telekom Europe B.V. is the majority shareholder with a 51% holding. (Deutsche Telekom Europe B.V. is 100% owned by Deutsche Telekom Europe Holding B.V. whose 100% owner is Deutsche Telekom Europe Holding GmbH (former name was T-Mobile Global Holding Nr.2 GmbH). Deutsche Telekom Europe Holding GmbH is 100% owned by Deutsche Telekom AG.).
- The Croatian War Veterans' Fund owns 7,0% of shares.[1]
- Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) of the Republic of Croatia (a legal successor to the Government Asset Management Agency) owns 2.9% of shares of the Company.
- The remaining 39,1% of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds are investors with the largest shareholding among the private and institutional investors. As at 31 December 2015 Raiffeisen Mandatory Pension Funds (category A and category B) owned 8,7% shares of the Company.

An up to date list of the top ten shareholders of the Company can be found on the Central Depository & Clearing Company web site (start your search by entering HT-R-A in the browser).

Mr. Davor Tomašković, President of the Management Board of Hrvatski Telekom d.d., owns 1,069 shares in total; Mrs. Nataša Rapaić, Management Board Member of Hrvatski Telekom d.d., owns 204 shares in total; Mr. Boris Batelić, Management Board Member of Hrvatski Telekom d.d., owns 1 share in total and Mr. Damir Grbavac, Supervisory Board Member of Hrvatski Telekom d.d., owns 69 shares in total.

Appointment of the management board, its functions and the amendments to the articles of association

The Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. The Management Board consists of between five and seven members. Current composition of the Management Board includes seven positions: the President of the Management Board (CEO); MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Information Officer (CTIO), MB Member and Chief Human Resources Officer (CHRO) and Member of the Management Board and Chief Customer Experience Officer (CCO). The position of COO Business is vacant on the day of issuance of this Statement.

The Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services, organized into two business units, Business and Residential.

The Management Board needs prior approval from the Supervisory Board for the proposal of any amendments to the Articles of Association at the General Assembly.

Authorities of the Management Board members

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board has responsibility for managing the business affairs of the Company. It is obligated and authorized to perform all the activities and to pass all the resolutions that it considers necessary to successfully manage the business affairs of the Company, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions.

The Company may be represented by any two members of the Management Board jointly.

The Management Board was authorized by respective General Assembly decisions from 2009, 2010 and 2011 (authorization is valid until 4 May 2016) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions.

The Management Board adopted in 2012 the Treasury share buyback program for the purpose of realization of the long-term incentive plans for senior management (Matching Share Plan), applicable at that time only to the President of the Management Board, as member of the business leaders group (BLT) within DT Group. The Company acquired at the Zagreb Stock Exchange 1,931 Company shares in May 2012 and 2,000 shares in May 2013, holding 3,931 treasury shares in total on the day of issuance of this Statement, and for the purpose of implementation of the mentioned Matching Share Plan above.

There were no acquisitions of Company shares in 2014 and 2015, due to the former President of the Management Board leaving the Company on 31 December 2013, and therefore the Plan has not been implemented in the years 2014 and 2015.

The composition and functions of the Supervisory Board

The Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Workers' Council as a representative of the Company's employees. The Supervisory Board is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board.

The Supervisory Board established the Compensation and Nomination Committee and the Audit Committee.

[1] On the day of the issuance of this Statement the Croatian War Veterans' Fund reduced its holding from 7% to 6,8%.

ECONOMIC ENVIRONMENT

MACROECONOMIC DEVELOPMENT
MARKET OVERVIEW
REGULATORY OVERVIEW

MACROECONOMIC DEVELOPMENT

HT Group's strong performance in 2015

HT Group maintained its leading position in the Croatian telecommunications market across all business segments in 2015 in spite of competitive pressure. At the same time, the Group reversed long-term negative trends in revenue and profitability, reporting year-on-year revenue growth and EBITDA stabilization.

Croatian recession finally ended in 2015

Croatian GDP grew more than expected in Q3/2015 (by 2,8% on a yearly basis) driven by strong growth in foreign demand. Overall in 2015 all major components of GDP recorded annual growth: personal consumption, export of goods/services, investment activities in the public and private sectors and state consumption. The recovery trend that started in 2015 is expected to continue in 2016[1].

Favourable trends were recorded in the labour market. The registered unemployment rate in November 2015 was 17,7%, which represents a decrease of 1,5 percentage points compared to November 2014[2].

Net disposable income was higher than in 2014 as a result of tax reform introduced in 2015. Reported average net income for October 2015 amounted to HRK 5,720, which is 4,3% higher in real terms than in October 2014. Average annual inflation rate for the whole of 2015, measured by the Consumer Prices Index (CPI), is expected to be -0,4%[1].

Source: [1] Bulletin of the Croatian National Bank No. 220, December 2015
[2] Central Bureau of Statistics

MARKET OVERVIEW

Mobile telecommunications

All players focus on customers and additionally invest in network to satisfy the demand for mobile data

The Croatian mobile market has been characterised by increasing competition among the three mobile operators and regulatory measures that impact mobile revenue. Competition remains fierce in the Croatian market as all three operators continue to launch new promotions designed to attract new subscribers and retain the loyalty of their current users.

Estimated mobile SIM penetration rate at the end of December 2015 was 113,2%. HT successfully managed to maintain its leading market share in total mobile customers at an estimated 47,0% at the end of December 2015.

Mobile customers are increasingly using their smartphones and tablets for entertainment, work and social interaction. Therefore all three mobile operators, already offering 3G services, are further investing in network upgrades to boost 3G data coverage and to strengthen existing 4G infrastructure.

The market drivers outlined above impacted mobile voice, messaging and data services trends.

Total Croatian mobile market minutes of use (MOU) grew by 1,9% yoy in first nine months of 2015. The number of SMSs sent continued to decrease on an annual basis, by 8,7% in first nine months of 2015 due to the impact of increasing OTT services usage.

Fixed-line

Market consolidation and All-IP network implementation

Market consolidation and fixed-to-mobile voice line and traffic substitution continued in 2015. According to the Agency's Q3 2015 report[4], the number of fixed line minutes declined by 13,5% yoy in first nine months of 2015.

Hrvatski Telekom successfully finalized a comprehensive process of IP transformation, modernization of its fixed telecommunications network, in which all its customers' fixed lines were migrated to IP (Internet Protocol) technology.

HT is the third telco in the European Union to have migrated all of its customers and services to All-IP network architecture.

Internet and PayTV

A high-speed Broadband is a key product differentiator

Croatia had 972,335 fixed broadband connections at the end of Q3 2015. The Croatian fixed broadband market continues to grow, rising 3% yoy in Q3 2015[4].

Demand for HT's fiber optic Ultra MAX packages has enabled HT to maintain its leading position in the broadband market. The FttH-based broadband packages (Fiber to the Home) offer speeds 10 times higher compared to ADSL packages.

The HT Group is focusing strongly on the further development of the network infrastructure, increasing broadband access capacity and availability to maintain its position as the largest fixed broadband operator in Croatia. HT Group had 603,017 broadband access lines at the end of December 2015.

The Croatian Pay TV market is highly competitive and still growing. The Pay TV market grew by 3% in Q3 2015 reaching 750,275 customers[4]. The leading Pay TV technology in the Croatian Pay TV market is IPTV.

Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remained high in Q4 2015 with the major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 105,039 at the end of 2015 (an increase of 44,7 % compared to December 2014). Due to high churn and migration to broadband services the number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing, and this resulted in 158,658 ULL access and 104,285 WLRs at the end of the period.

From April 2015, wholesale prices for international non-EU termination to HT fixed and mobile networks were deregulated. Following deregulation, prices are set on commercial basis, thus generating additional revenue.

ICT

According to IDC Adriatics[5], the Croatian ICT market is expected to grow by 2,9% in 2015. All segments of the Croatian ICT market are expected to have shown growth in 2015. The strongest growth is expected in Packaged Software (5,1%), followed by IT services (3,4%) and Hardware (1,9%).

The HT Group is positioned in all three segments by providing standard and customized services, and with a strategic focus on the higher margin business of Cloud and Managed services.

Source: [3] Croatian Post and Electronic Communications Agency
[4] Croatian Post and Electronic Communications Agency
[5] Croatian IT Market 2015–2019 Forecast and 2014 Vendor Shares, IDC Adriatics, June 2015

REGULATORY OVERVIEW

Deregulation of mobile and fixed termination rates (MTR/FTR) outside EU/EEA

On 30 March 2015, HAKOM passed its final decisions on MTR and FTRs. According to these decisions, national MTR/FTRs remain regulated with prices that were applicable as of 1 January 2015. MTR/FTRs in the case of calls originated from numbers belonging to international operators outside EU/EEA and in the case of calls without a number as well as FTR on national level are excluded from further regulation. Following this decision, deregulated MTR/FTRs were applied as of 1 April, 2015.

Regulation of fixed origination (FOR)

FOR prices decreased on 1 January 2015 (36% decrease) owing to a HAKOM decision made in 2014. On 30 March 2015, HAKOM passed a final decision on FOR. Regulation of FOR is applicable for interconnection on a local and regional level, while interconnection on a national level is excluded from regulation. New regulated FOR prices apply as of 1 May, 2015 (43% decrease).

Wholesale leased lines markets analyses

On 29 July 2015, HAKOM reached its final decisions on the analysis of:

- wholesale trunk segment of leased lines[6] which is subject to deregulation and
- wholesale high-quality access provided at a fixed location[7] which is subject to regulation.

According to HAKOM's decision, HT in substance remains an operator with significant market power on leased line market with the currently applicable regulatory remedies[8].

Market analysis of wholesale access markets

On 9 July 2015, HAKOM reached its final decisions on the analysis of wholesale local access provided at a fixed location and wholesale central access provided at a fixed location for mass-market products.

According to HAKOM's decision, HT and its subsidiaries, Iskon and Optima Telekom, remain operators with significant market power on the relevant markets with currently applicable remedies[9]. Additionally, the decision introduced new margin squeeze (MSQ) test methodology for HT's retails services.

Deregulation of retail BB/IPTV market

On 9 July, 2015 HAKOM reached its final decision on deregulation of the retail broadband market and market of transferring TV channels applicable to HT and its subsidiaries Iskon and Optima Telekom.

Although finally deregulated, in substance the implications for HT are the following:

- deregulation of duration and frequency of promotional offers and

Sources: [7] In accordance with HAKOM's proposal wholesale trunk segment of leased lines market includes leased lines (Ethernet, xWDM and traditional digital (SDH, PDH, (S)HDSL) leased lines relations) between 16 cities in Croatia where at least two operators beside HT (or HT subsidiary) provides wholesale leased lines.
[8] All leased lines relations (Ethernet, xWDM and traditional digital (SDH, PDH, (S)HDSL) leased lines relations) other than wholesale trunk segment of leased lines.
[9] Regulatory obligations of access to and use of special network facilities, non-discrimination, transparency, price control and cost accounting obligation, accounting separation.

- shorter deadlines for prior notification of new offers to HAKOM (8 instead of 45 days with the transitional period of 5 months with 30 days prior notification)

The decision has enabled HT to be more responsive to the retail market.

HT determined as an operator of universal services (USO)

According to the HAKOM decision of 23 September 2015, HT remains an operator of USO services for the further period of four years (from 29 November 2015 to 29 November 2019). HT is obliged to provide the majority of USO services, including providing access to the public telephone network at fixed locations and internet services at the speed of 1Mbit/s as the most important USO services[10]. Under the same decision, HT is no longer obliged to provide access to the telephony number information service (118xxx service)[11].

Determination of monthly fee for ULL

Under the HAKOM decision of 16 December, 2015, HT was given the option to increase the existing ULL price of HRK 43,61 (EUR 5,81) to the price of HRK 57,30 (EUR 7,64) effective as of 1 January 2017. This decision may potentially lead to NBSA price increases and the increase of telecommunications market value.

Shorter deadlines for notification of new retail prices for access services and prices offered in public procurement procedures

On 7 December 2015, HAKOM reached a final decision on:

- shortening the deadline for notification of new retail prices for access services from 45 days to eight days prior to launch of the service,
- shortening the deadline for notification of retail prices of regulated retail services (access, broadband and IPTV services - including bundles containing these services) offered in public procurement procedures from 10 days prior sending the offer to the day the offer is sent.

This has enabled HT to be more responsive to the retail market.

Shorter deadlines for HT's copper network reconstruction

On 23 December 2015, HAKOM reached its final decision on shortening the deadline for prior notification of reconstruction of copper network on certain ULL locations from five years to six months. According to this decision, HT is obliged to offer to alternative operators at the covered ULL locations BSA services for the price of ULL over a period of two years. The decision has enabled the provision of better broadband services and higher speeds to end customers.

All IP migration completed

On 1 December 2015, the Group successfully completed its migration to all IP migration following a three-year initiative, with the support of HAKOM in defining terms and conditions of migration, including IP interconnection. The achievement of All IP confirms HT's leadership position in the Croatian market and has created the preconditions for the development of better and advanced services to customers and meaningful convergence of fixed and mobile services.

Sources: [10]USO services that HT is obliged to provide: access to public telephony network at fixed location, installation of pay-phones, special measures for physically disabled persons and special price list for socially endangered end users.
[11] This service will be provided by another USO provider – Imenik d.o.o.

BUSINESS REVIEW

OPERATIONAL HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

Disclosure

The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regard to management and control over Optima Telekom, among which is the implementation of so called ''Chinese walls'' between Optima Telekom's and HT employees involved in Optima Telekom's business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Only financial statements are consolidated while due to limited access to Optima Telekom's information, non financial KPIs are not consolidated in the Group results.

HT Group Mobile KPI's

Key operational data	2014.	2015	% of change A15/A14
Mobile customers in 000			
Number of customers	**2,252**	**2,233**	**-0,9%**
- Residential	1,777	1,749	-1,6%
- Business	475	483	1,7%
Number of postpaid customers	**1,099**	**1,119**	**1,8%**
- Residential	658	673	2,3%
- Business	441	446	1,1%
Number of prepaid customers	**1,153**	**1,114**	**-3,4%**
Minutes of use (MOU) per average customer	**188**	**195**	**3,8%**
- Residential	171	178	4,3%
- Business	254	258	1,4%
Blended ARPU (monthly average for the period in HRK)	**79**	**75**	**-5,6%**
- Residential	70	66	-5,6%
- Business	117	109	-6,8%
Blended non-voice ARPU (monthly average for the period in HRK)	**33**	**36**	**6,4%**
SAC per gross add in HRK	**123**	**96**	**-22,3%**
Churn rate (%) (monthly average for the period)	**2,9**	**2,6**	**-0,2 p.p.**
Penetration (%) [1]	**114**	**113**	**-0,8 p.p.**
Market share of customers (%) [1]	**47**	**47**	**0,2 p.p.**
Data customers	**1,409**	**1,496**	**6,2%**
Smartphone customers (%) [2]	**41**	**51**	**10,6 p.p.**
Smartphones sold (%) [3]	**73**	**79**	**6,0 p.p.**

1) Source: new estimation for HR population 2015 and 2014 official data published by Croatian Bureau of Statistics
2) Number of customers using smartphone handsets in total number of mobile customers
3) Number of smartphones sold in total number of handsets sold (postpaid only)

HT Group Fixed KPI's

Key operational data	2014.	2015.	% of change A15/A14
Fixed mainlines in 000			
Fixed mainlines - retail [1]	**1,050**	**968**	**-7,8%**
- Residential	914	850	-6,9%
- Business	136	118	-13,4%
Fixed mainlines - wholesale (WLR - wholesale line rental)	**116**	**104**	**-9,8%**
- Residential	102	94	-7,8%
- Business	13	10	-25,3%
Total traffic (mill. of minutes) [2]	**1,545**	**1,311**	**-15,1%**
- Residential	1,268	1,112	-12,3%
- Business	277	199	-28,1%
ARPA voice per access (monthly average for the period in HRK) [3]	**94**	**88**	**-6,8%**
- Residential	84	79	-5,8%
- Business	161	150	-6,8%
IP mainlines/customers in 000			
Broadband access lines - retail [4]	**614**	**603**	**-1,8%**
- Residential	512	505	-1,3%
- Business	102	98	-4,5%
Broadband access lines - wholesale [5]	**73**	**105**	**44,7%**
- Business	73	105	44,7%
TV customers	**393**	**388**	**-1,5%**
- Residential	370	364	-1,6%
- Business	23	23	-0,3%
thereof IPTV	**333**	**316**	**-5,1%**
- Residential	312	296	-5,2%
- Business	21	20	-2,9%
thereof Cable TV	**6**	**6**	**-0,4%**
- Residential	6	6	-0,4%
- Business	0	0	-1,4%
thereof Satellite TV	**54**	**65**	**20,6%**
- Residential	52	63	20,5%
- Business	2	3	23,0%
Fixed-line customers	**2**	**2**	**13,2%**
VPN connection points	**5**	**5**	**-0,8%**
Broadband retail ARPA (monthly average for the period in HRK)	**126**	**126**	**-0,3%**
- Residential	124	123	-1,0%
- Business	136	140	3,1%
TV ARPU (monthly average for the period in HRK)	**80**	**81**	**1,3%**
- Residential	79	80	0,9%
- Business	97	103	6,4%
Data lines in 000			
Total data lines	**5**	**5**	**1,7%**
Wholesale customers in 000			
CPS (Carrier Pre-Selection)	**14**	**9**	**-40,4%**
NP (Number portability) users/number	**736**	**873**	**18,5%**
ULL (Unbundled Local Loop)	**168**	**159**	**-5,5%**

1) Includes PSTN, FGSM and old PSTN Voice customers migrated to IP platform; payphones excluded
2) Total traffic is generated by fixed retail mainlines as defined in note 1.
3) Payphones excluded
4) Includes ADSL, FTTH and Naked DSL
5) Includes Naked Bitstream + Bitstream

Note: Optima Telekom's non financial KPIs not integrated into Group results due to limited access to Optima Telekom's information as a result of "Chinese wall" introduced by regulator

MAJOR ACHIEVEMENTS IN 2015:

Continuously strengthened position in the market and leadership across all categories

- Overall TRI*M result in 2015 has improved.
- Redesigned portfolio of services spurred market recovery

Financial outlook achieved, with the main financial KPIs stabilized after several years

- Revenue increased over previous year by HRK 11 million or 0,2%
- EBITDA is stable in comparison to previous year
- CAPEX rose by HRK 397 million or 36,9% over previous year due to significant investment in network
- Net cash flow from operating activities rose 2,0% over previous year mainly due to improved active working capital driven by accounts receivables and lower tax paid

Strategic achievements

- Transformation activities continued in 2015 within the strategic program HORIZONT
- Results of HORIZONT program are visible in terms of costs savings, improved customer experience, changes in fixed and mobile services, and better utilization of the FttH VDSL technology
- Key projects for prioritisation in 2016 have been defined
- HT successfully engaged in the PAN IP project, targeting a move to change to an integrated service production platform: HT successfully tested voice over LTE (VoLTE) in a laboratory environment in cooperation with the DT. Proof of concept testing also included anchoring calls to IMS and call continuity in the case of switchover between 3G and 4G.

Strong investment in the network, with capex of HRK 1,473 million in 2015

- HT is the third telco in the EU to have migrated all of its customers and services to All IP network architecture
- In 2015 indoor population coverage increased from 45% to 65%
- Mobile network optimized resulting in independent P3 “Best in Test” certificate
- Download throughput of mobile network increased up to 225 Mbps in some urban areas
- Next generation access potential increased in fixed network

Continuation of marketing innovation that influences market recovery

- February 2015 - 4G campaign with 150Mbits launched speed with further promotion of Ultra MAX packages
- April 2015 - Cloud VPN, 1st commercial service within PANNET was launched
- May 2015 - HT presented new subscription plans called “Najbolje” tariffs which are completely adjusted to customers’ needs and enriched with many benefits
- May 2015 - New T prepaid portfolio with redefined options and promo offers was launched to offer better services to customers
- May 2015 - visitor offer for tourists introduced with unlimited flat surfing
- September 2015 - Introduction of new “Zmajska opcija” for Simpa supported by media campaign
- November 2015 - Improvement and enrichment of MAXobitelj converged offer
- November 2015 - MAXtv SAT attractive offers as strongest standalone TV offer on the market
- December 2015 - Bonbon opened attractive store for customers in modern design

Social responsibility

- HT received Mamforce certificate promoting work life balance and gender equality

Mobile telecommunications

The mobile customer base decreased by 0,9%, from 2,252,000 customers at the end of 2014 to 2,233,000 customers at the end of 2015, driven by the residential segment (down 1,6%) mainly as a result of overall aggressive competitive offers on the market and a decrease of customers with double SIM cards, due to the continuing trend of in the business segment (up 1,7%) mainly as a result of the launch of the new favorable flat and cross net offers. The decline of the residential customer base was partially offset by an increase "Najbolje" mobile attractive tariffs and growth in M2M (machine to machine) and Mobile Internet.

The number of postpaid customers was 1,8% higher than at the end of 2014 with the increase seen in both residential (up 2,3%) and business (up 1,1%) segments. This was a result of strong marketing of attractive tariffs and handsets as well as Mobile Net offers.

In order to spur the market recovery HT launched new mobile price premium tariffs called "Najbolje" at the beginning of May 2015. These "Najbolje" tariffs are customized to suit all HT customers' needs and enhanced by many benefits such as 4G speeds and additional services included in the tariffs. Furthermore, within the "Najbolje" tariffs customers can opt for additional services like MAXtv To Go, Navigation or Road Aid free of charge. Top handset models like the iPhone, Samsung Galaxy, Xperia are available within Najbolje tariffs.

In February, HT doubled the maximum mobile Internet speed in its 4G mobile network from 75 Mbit/s to 150 Mbit/s, which is now accessible to a considerable number of Croatia's residents. Speeds two times higher are available to customers with many new services related to live TV, HD video streaming and online gaming. At the beginning of July 2015, HT received the P3 Best In Test certificate confirming the quality of HT's mobile network as the fastest mobile Internet and the best mobile voice service amongst all networks in Croatia.

Continuing its intensive development of the 4G network in the fourth quarter of 2015, HT has achieved speed of 225Mbit/s, currently the highest mobile network speed in Croatia, in Varaždin and Zagreb, and soon plans to offer them in other major cities, and also in rural areas.

The number of prepaid customers was down by 3,4% from the end of 2014 due to an overall decline in the prepaid market and strong competition. Ongoing MNP and retention efforts in the prepaid segment as well as a focus on additional value for HT prepaid customers are being undertaken to mitigate the decline. New redefined T prepaid tariffs and options were launched in the second quarter of 2015 introducing three new options and Internet dan 4G. Additionally, in the third quarter, HT introduced a promotion of an option called "Sve" offering double the amount of minutes, messages and data at the same price.

HT provided a special offer for tourists during the summer that included unlimited surfing at 4G speed in Croatia.

A new media campaign was launched in September for Simpa "Zmajska opcija". Simpa customers can choose how they want to spend 3,000 units, by combining minutes, SMS and GB.

In October, HT introduced a special offer for skiers abroad called the Travel & Surf option with multiple advantages for customers. Customers can choose one, three or seven days and the price and data included depends on the number of days selected.

Bonbon continued to offer additional value, supported by a new media campaign, with discounts on L and XL packages. In December, Bonbon opened its first stylish, modern retail store, where customers can test a range of devices, apps and accessories. The store offers an environment with interactivity, professional support, information and enjoyment in order to make the purchase of telecoms equipment a pleasurable experience and thereby enhance customer satisfaction.

Multiplus mobile launched a new promotion in the middle of June offering additional minutes and discounts on mobile data packages in exchange for Multiplus card points.

Minutes of usage per average customer in 2015 increased by 3,8% compared to the previous year due to the introduction of flat offers and the offering of bundles with a high number of minutes in postpaid and prepaid tariffs, in line with overall market trends.

Blended ARPU decreased by 5,6% compared to the previous year as a result of a highly competitive market driven by attractive offers. Respectively, HT increased its share of tariffs with bundles and share of data tariffs with lower ARPU. The economic situation also had an impact on ARPU.

Fixed line

In comparison to the end of 2014, HT Group's fixed retail customer base decreased by 7,8% to 968,000. The decline was heavily impacted by the general economic situation and was accelerated by the telecommunication market trend of fixed to mobile and IP substitution, as well as regulation and enforced competition.

Nevertheless, the HT Group further continues to undertake proactive and reactive churn prevention offers and activities.

To mitigate the decline, the Group introduced fixed line promotions offering phone connection for HRK 1 with 24 MCD accompanied by the new fixed line tariffs Halo Non stop.

Fixed telephony users generated 1,311 million minutes in 2015, which was 15,1% lower than the previous year as a result of the fixed market decline and fixed to mobile substitution.

Fixed voice ARPA decreased by 6,8% in comparison to the previous year, as a result of the general market trends outlined above.

Internet

The TV customer base decreased by 1,5% from 393,000 customers at the end of 2014 to 388,000 of customers at the end of 2015 as a result of aggressive competitive bundled offers on the market and regulation.

TV ARPU was 1,3% higher in comparison to the previous year. This was result of continuous service and program improvements driven by premium content and enriched exclusive TV content with new programming.

HT offered “Best Internet and 6 months TV for HRK 1”, available to all MAX2, ULTRA customers, MAXobitelj and MAXadsl customers. Moreover, HT continued to promote the MAXtv package Pickbox, which contains more than 70 hit series and 300 movies.

Satellite TV continues to grow, with further improvements providing more value to the customers, and resulting in 20,6% more customers than at the end of 2014. Promotions were available offering 50% discount on the Basic or Basic Extra package monthly fee for the first nine months or one month of access to additional packages free of charge.

HT continued its convergent and joint mobile and fixed activities promoting the MAXobitelj product with a favorable mobile tariff, more mobile Internet and top-class smartphones and tablets, making this offer even more attractive.

During the Christmas and New Year period, the offer was further improved as follows: MAXtv for new customers or Pickbox, HBO Premium or MAX Arena for existing MAXtv customers and selected Najbolja mobile plan tariff for HRK 1 during first six months.

At the end of 2015, the Broadband retail customer base was 1,8% lower than last year reaching 603,000. The decline is coming from both segments, business (down 4.5%) and residential (down 1,3%) due to stronger competition and aggressive offers in the market.

To mitigate the decrease HT continues to promote its MAX2/MAX3 packages and Ultra MAX packages on FttH accompanied by attractive options included in the price, smartphone and tablet offers like Samsung Galaxy Ace 4 and Samsung Galaxy Tab4 10.1 LTE. These packages are based on FttH technology, which enables speeds ten times higher than standard ADSL speeds.

Under its Integrated Network Strategy, HT will continue to invest in the development of the fiber network and plans to expand its fiber optical internet zones to maintain its position as the largest fixed broadband and TV operator in Croatia.

Data

The number of data lines was 1,7% higher compared to the previous year due to the development of the Metro Ethernet service.

Wholesale

At the end of 2015 there were 159,000 active ULL lines, which was 5,5% lower in comparison to same period the previous year. The number of ULL lines decreased due to a higher focus on alternative operators for broadband services. Broadband wholesale access lines (DSL and naked DSL lines) reached 105,000, which was 44,7% above number of lines at the end of 2014.

The number of WLR lines at the end of 2015 decreased to 104,000 compared to 116,000 at the end of 2014 as a result of declining voice market.

As a consequence of the WLR offer, the number of “pure” CPS customers was reduced to the level of 9,000 at the end of 2015 for a decrease of 40,4% compared to the same period last year.

At the end of 2015 there were 873,000 ported numbers from HT’s fixed network to other fixed networks, 18,5% above the number of ported numbers at the end of the previous year. Growth in the number of ported numbers compared to the previous year was mainly connected with growth of NBSA services.

Regulated prices for services of national fixed and mobile termination were reduced as of 1 January, 2015. The regulated price for services of fixed origination was decreased twice in 2015 (as of 1 January and additionally from 1 May).

In the competitive domestic wholesale market of data and IP services, 2015 was a very successful year for HT wholesale. Total capacities sold increased by 25,9% reaching 295 Gbps at the end of the year. Especially successful was sale of IP upstream services, with growth of 155% in volume compared to 2014.

Visitor roaming services are still a major source of international wholesale revenue. Roaming traffic showed further growth of usage in 2015, both from foreign visitors in HT mobile network and by HT retail users abroad. Visitors generated 19,1% more voice originating minutes and 60,9% more data traffic than last year. At the same time, on the wholesale cost side, HT’s mobile customers generated 17,8% more roaming originated voice traffic in foreign countries and 120,2% more data traffic. In May 2015, HT started the implementation of 4G (LTE) roaming services with foreign operators worldwide and ended 2015 with 51 bilateral 4G roaming interconnections, covering all major visitor emitting countries as well as major destination countries of HT roamers (where LTE is available).

The total capacity of data services sold in international market increased by 5,8% and the capacity of IP services sold increased by 15,6%, both contributing to wholesale international revenue. At the end of the year total sold capacity reached 307 Gbps of bandwidth.

The third significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminating in HT mobile network increased by 26,8% compared to the same period in 2014, while international traffic toward the HT fixed network decreased by 15,1% at the same time. Due to the fact that HAKOM deregulated the price of termination of international voice traffic originated in non-EU/EEA countries toward Croatian fixed and mobile networks as from 1 April, 2015, HT, as well as other telecom operators in Croatia, has increased termination rates for such traffic, resulting in a significant revenue increase in that category.

ICT

Continuous growth in all portfolio segments was driven by HT Group’s strategic focus in the area of Cloud and Managed Solutions. The strongest growth was recorded in customized ICT solutions together with Combis and other ICT Enterprise partners. The Group focused on market education and customer experience to further strengthen its leading position on the market. The ICT services portfolio was enhanced by with new services like Pantheon ERP, Localis, Disaster Recovery and Mini CRM.

The revenue growth of HRK 95 million compared to the previous year was mainly driven by higher revenues from licenses, network (LAN/Wi-Fi) solutions, sales of ICT equipment, virtualization of IP PBX, providing consulting services and sales of specific IP communication and safety equipment, enterprise software/professional solutions.

Energy

Revenues from energy were HRK 35 million higher when compared to 2014 due to a greater number of customers, which rose 34,1%. In 2015, packages of telecommunication services and energy for residential customers were launched, and the Group will focus on developing these plans further.

The development of packages of telecommunication services and energy has also been initiated for business customers, as part of initiatives to boost customer stickiness.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Disclosure

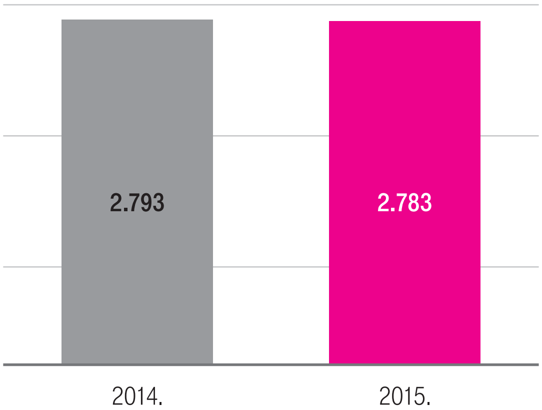
In 2015, the Company voluntary changed its accounting policy with regard to costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way. It determined that ECI contracts meet the criteria for capitalization as intangible assets. The Company believes that recognizing the costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way as intangible assets results in the better presentation of the financial position and provides more relevant information.

The accounting treatment of the costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way varies within the telecommunication industry, but the Company believes the current accounting policy is more appropriate as it is aligned better with industry best practices. The change in accounting policy has been accounted for retrospectively, and the Company restated the comparative amounts for each prior period presented as if the new accounting policy had always been in place.

The effects of the accounting policy change on financial information for 2014 are as follows: decrease of Other expenses (rental) by HRK 6 million, increase of Depreciation and amortization by HRK 4 million, increase of Financial expenses by HRK 2 million, increase of Intangible assets by HRK 16 million, increase of Non-current liabilities by HRK 12 million, increase of Current liabilities by HRK 4 million, increase of Net cash inflow from operating activities by HRK 6 million, decrease of Net cash flow from financing activities by HRK 6 million.

The effects of the accounting policy change on main financial information for 2015 are as follows: EBITDA before exceptional items rose HRK 50 million, an increase in Net profit after NCI of HRK 22 million, an increase in Capex of HRK 76 million.

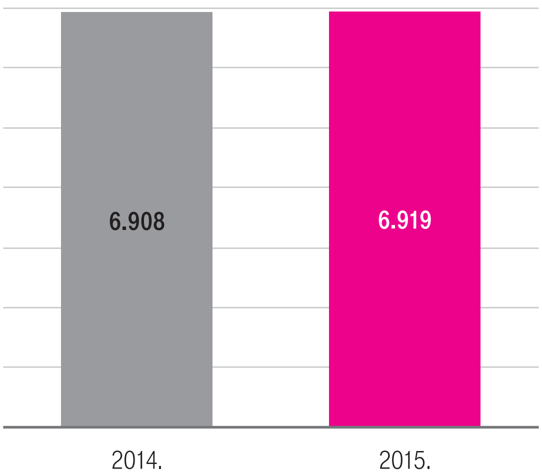
EBITDA before EI in HRK million



EBITDA before exceptional items

- EBITDA is stable in comparison to last year and amounts HRK 2,783 million
- In 2015 without Optima Telekom there is considerable decrease of declining trend with EBITDA fall of HRK 60 million or 2,2% compared to fall of HRK 333 million or 10,8% in 2014 due to cost optimization
- Solid EBITDA margin maintained at 40,2% (2014: 40,4%)
- EBITDA after EI increased by HRK 50 million or 1,9% compared to last year, due to lower restructuring cost

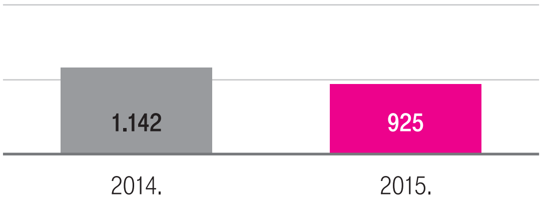
Revenue in HRK million



REVENUE

- Revenue is above 2014 by HRK 11 million or 0,2% mainly driven by ICT (HRK 95 million yoy growth) and Optima Telekom contribution (HRK 148 million) that offset decline mainly driven by voice
- Without Optima Telekom, decline of HRK 136 million or 2,0% slowed down in comparison to decline of HRK 238 million or 4,0% in 2014

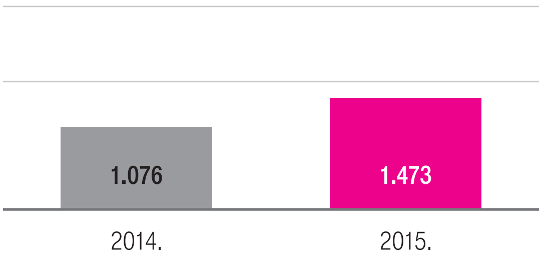
Net profit after NCI in HRK million



NET PROFIT after non controlling interests

- Net profit after non controlling interests is below 2014 by HRK 218 million or 19,1% mainly due to tax effect of profit reinvestment in 2014 (HRK 188 million)
- Beside negative tax effect from 2014 profit reinvestment in 2015 Net profit is under influence of higher amortization and negative effect from non controlling interest, partially offset by lower cost related to exceptional items and higher net financial income

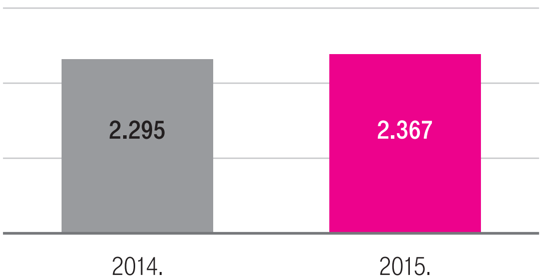
CAPEX in HRK million



CAPEX

- Capex realization is above 2014 by HRK 397 million or 36,9% with the focus on a further development of the network infrastructure, increase of broadband access capacity and availability as well as IP transformation implementation to secure business continuity and long-term sustainability of market position
- Capex sales ratio increased to 21,3% from 15,6% in 2014

Cash flow from operating activities in HRK million



Cash flow from operating activities

- Compared to 2014, net cash flow from operating activities increased by HRK 72 million or 3,1% mainly due to improved active working capital driven by accounts receivables and lower tax paid

HT GROUP

in HRK million	2014.	2015.	% of change A15/A14
Revenue	6,908	6,919	0,2%
EBITDA before exceptional items	2,793	2,783	-0,4%
Exceptional items	152	91	-39,8%
EBITDA after exceptional items	2,641	2,691	1,9%
EBIT (Operating profit)	1,225	1,199	-2,2%
Net profit after non controlling interests	1,142	925	-19,1%
EBITDA margin before exceptional items	40,4%	40,2%	-0,2 p.p.
EBITDA margin after exceptional items	38,2%	38,9%	0,7 p.p.
EBIT margin	17,7%	17,3%	-0,4 p.p.
Net profit margin	16,5%	13,4%	-3,2 p.p.
Balance Sheet	**At 31 Dec 2014**	**At 31 Dec 2015**	**% of change A15/A14**
Total non current assets	8,206	8,444	2,9%
Total current assets	5,635	5,636	0,0%
TOTAL ASSETS	**13,841**	**14,079**	**1,7%**
Total issued capital and reserves	11,276	11,641	3,2%
Total non current liabilities	654	556	-15,1%
Total current liabilities	1,910	1,882	-1,5%
TOTAL EQUITY AND LIABILITIES	**13,841**	**14,079**	**1,7%**
Cash flow	**2014.**	**2015.**	**% of change A15/A14**
Net cash flow from operating activities	2,295	2,367	3,1%
Net cash flow from investing activities	-1,218	-557	54,3%
Net cash flow from financing activities	-930	-832	10,5%
Cash and cash equivalents at the end of period	**2,192**	**3,175**	**44,8%**
CAPEX	1,076	1,473	36,9%
CAPEX / Revenue ratio	15,6%	21,3%	5,7 p.p.
	At 31 Dec 2014	**At 31 Dec 2015**	**% of change A15/A14**
ROE	10,4%	8,1%	-2,3 p.p.
ROCE	10,3%	9,8%	-0,4 p.p.
Number of employees (FTEs)	4,994	4,742	-5,0%
RESIDENTIAL SEGMENT			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Revenue	3,942	3,776	-4,2%
Contribution to EBITDA before exceptional items	2,687	2,611	-2,8%
BUSINESS SEGMENT			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Revenue	2,745	2,718	-1,0%
Contribution to EBITDA before exceptional items	1,393	1,353	-2,9%
NETWORK & SUPPORT FUNCTIONS			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Contribution to EBITDA before exceptional items	-1,411	-1,406	0,3%
SEGMENT OPTIMA CONSOLIDATED			
in HRK million	**2014.**	**2015.**	**% of change A15/A14**
Revenue	221	425	92,0%
Contribution to EBITDA before exceptional items	123	224	82,3%

Note: Consolidation of Optima Telekom financial figures has been started since July 1st 2014, respectively Optima Telekom contribution in 2014 includes six months period result, while in 2015 includes result for the whole year. Segment Optima consolidated does not include full Optima Telekom consolidation effect since internal transactions on HT Inc and Iskon side included in business and residential segments. Including internal transactions effect, Optima Telekom's net contribution to HT Group revenue for 2015 amounted HRK 296 million while for 2014 has been amounted HRK 149 million. Respective Optima Telekom contribution to EBITDA before exceptional items amounts for 2015 amounted HRK 106 million while for 2014 has been amounted HRK 57 million.

REVENUE

Total consolidated revenue increased by 0,2% to HRK 6,919 million in 2015 from HRK 6,908 million in 2014. The increase was driven by higher miscellaneous revenue (up HRK 319 million), other service revenue (up HRK 95 million) and terminal equipment (up HRK 33 million), but partially offset by a decrease in voice revenue (down HRK 376 million) and non voice revenue (down HRK 59 million).

In 2015 Optima Telekom's contribution to revenue was HRK 296 million, which consisted of HRK 425 million of Optima Telekom's third party contribution and is presented in total under miscellaneous, and HRK 129 million of inter-company transactions that decreased mainly due to non voice wholesale revenue. In 2014, Optima Telekom contributed HRK 149 million to HT Group revenue and was of HRK 221 million of Optima Telekom third party revenue and HRK 73 million of inter-company transactions.

Excluding Optima Telekom, the revenue decline slowed to 2,0% in 2015 in comparison to 2014 when it was 4,0% lower than the previous year.

Although wholesale prices are continuously decreasing (national mobile, fixed and regulated international termination), deregulation of non EU termination prices offset the negative impact coming from price declines.

The contribution of subsidiaries in Group revenue in 2015 was as follows: Iskon - HRK 381 million (2014: HRK 371 million) and Combis - HRK 471 million (2014: HRK 418 million).

Voice revenue

Voice revenue declined by HRK 376 million or 13,9% in comparison to 2014 and was driven by mobile (down HRK 225 million or 17,4%) and fixed retail voice revenue (down HRK 155 million or 12,1%), partially offset by an increase (up HRK 4 million or 2,9%) in wholesale voice.

The decline in mobile came from both residential (down HRK 166 million or 18,7%) and business segment (down HRK 58 million or 14,5%)

Lower average price of usage resulted from a saturated mobile market and contributed to the revenue decrease, as well as a slightly lower number of customers (down 0,9%), driven by residential segment.

The fall in mobile was the result of MTC revenue declines, a drop in prepaid and postpaid retail revenue and lower revenue from visitors.

MTC revenue dropped by HRK 84 million, or 43,7%, as a result of price decreases from January 2015 in national mobile to mobile traffic (2015: HRK 0,063 vs 2014: HRK 0,1282). International termination prices decreased from January 2015 at national termination level (2015: HRK 0,063 vs 2014: Q1 & Q2 HRK 0,45, Q3 & Q4 HRK 0,32), but from April 2015 deregulation of international termination prices from non EU countries was introduced and consequently increased international termination prices.

Despite an increase in the postpaid customer base (up 1,8%) in both residential and business, total postpaid retail revenue declined by HRK 67 million or 9,8%, from both residential (down HRK 49 million or 12,7%) and business (down HRK 18 million or 6,0%). The decline in postpaid retail residential was a result of lower ARPU, coming from continuous substitution of traditional voice services with data.

This trend was supported with the introduction of the new postpaid tariffs more focused on data with 4G speeds and additional services included in bundles.

The decline in postpaid retail business was driven by lower ARPU, as a result of a higher share of bundle tariffs.

Prepaid retail revenue decreased by HRK 52 million or 14,6%, driven by residential and caused by a lower customer base, down 3,4%, and lower ARPU. The customer base was lower due to strong competition, the shift to low value operators and the overall decline of prepaid market, while lower voice ARPU was an outcome of a higher focus on prepaid data packages, providing affordable data traffic for prepaid customers and further accelerating the substitution of voice services for data.

Visitors revenue declined although voice traffic increased. Deregulation of international termination prices from non EU countries positively impacted visitor revenue.

In 2015, fixed retail voice declined by HRK 155 million, or 12,1%. From total decline, HRK 102 million or 10,9% was from residential and HRK 53 million or 15,3% from the business segment. The decline was the result of a fall in retail mainlines of 7,8% compared to the previous year, ongoing fixed to mobile substitution due to strong mobile offers which are much more attractive than the fixed voice proposition and a strong regulatory environment. Consequently, the number of minutes dropped by 15,1% and ARPA voice per access declined by 6,8%.

Fixed wholesale voice increased by HRK 4 million or 2,9% and the rise was mainly driven by the deregulation of international termination prices from non EU countries from April 2015, but offset by lower fixed national prices (2015 HRK 0,005 vs 2014 HRK 0,024), followed by a decline in international fixed and mobile interconnection prices from January 2015 (2015: HRK 0,063 vs 2014: Q1 & Q2 HRK 0,45, Q3 & Q4 HRK 0,32).

Non voice revenue

Non voice revenue decreased 2,1% in comparison to 2014. The decline was the result of lower fixed wholesale revenue, SMS revenue, ADSL, other non voice revenue and VPN. These falls were partially offset by an increase in mobile data revenue, visitor revenue and traditional data.

The decline in wholesale fixed non voice revenue mainly resulted from the higher consolidation impact related to Optima Telekom, partially offset by higher infrastructure revenue.

Lower ADSL revenue was the result of lower broadband customer base, which was down 1,8%.

Other non voice revenue decline was the result of lower fixed internet access, dial up and installation revenues.

TV revenue was in line with 2014 despite a lower TV customer base, down by 1,5%, as a consequence of TV market saturation due to a range of service providers and the lower spending power of households, with some optimizing costs by switching to free to air DVB-T channels. TV ARPU was higher, up 1,3%, driven by new and exclusive content.

Mobile data growth was a result of the continued trend of substitution from traditional voice and SMS services for data, a higher volume of data traffic included in tariff bundles and the increasing share of customers having smartphones.

Tariffs "Najbolje" introduced in 2015 contributed to higher data revenue, with the focus on 4G network services included in tariffs.

Other service revenue

An increase in other service revenue by HRK 95 million or 13,8%, in comparison to the previous year was driven by higher ICT revenue. The Combis contribution came primarily from IP communications, application/professional solution and network infrastructure and connectivity. HT Inc contributed positively due to revenue growth from standard the ICT portfolio (Cloud services) and customized solutions (managed services, private cloud and hardware reselling).

Terminal equipment

Terminal equipment revenue increased by HRK 33 million or 11,0% in comparison to 2014. This was a result of the positive contribution from increased business revenue (up HRK 17 million or 20,3%) and residential (up HRK 16 million or 7,4%), due to shifting handset mix in favour of more valuable phones.

Miscellaneous

An increase in miscellaneous by HRK 319 million or 76,9% in comparison to 2014, was mainly driven by higher Optima consolidated segment revenue in the amount of HRK 204 million. Optima Telekom was consolidated for the entire 2015, with impacting miscellaneous revenue by HRK 425 million while in 2014 consolidation was started in July and the impact was HRK 221 million.

The remainder of the increase - HRK 115 million - was mostly the result of higher new fees introduced from 1 July 2014, which has been charged to mobile customers as a result of the new fee enforced by the government, higher revenue from energy business (HRK 35 million) due to increased customer base and higher mobile (HRK 11 million) mainly due to higher non recurring fee, revenue for promotional activities from European brand campaign and national roaming revenues.

Other operating income

Other operating income decreased by HRK 26 million or 21,2% compared to the last year mainly as a result of lower income from fees related to a court decision regarding the collection process, but partially offset by higher revenue from AXE selling after PSTN migration.

OPERATING EXPENSES

In comparison to 2014, total consolidated operating expenses decreased by HRK 65 million, or 1,5%, to HRK 4,326 million in 2015. In 2015 HT Group initiated an indirect opex savings project that identified measures which resulted in a positive impact on expenses in 2015.

This decrease was driven by lower employee benefits expenses (HRK 105 million) and write down of assets (HRK 28 million), partially offset by higher material expenses (HRK 35 million) and other expenses (HRK 31 million), and lower work performed by Group and capitalized (HRK 2 million).

Excluding the effect of lower exceptional items related to transformation and restructuring costs of HRK 61 million (2015: HRK 91 million vs 2014: HRK 152 million) and the higher contribution of Optima Telekom excluding exceptional items of HRK 89 million (2015: HRK 192 million vs 2014: HRK 103 million), operating expenses decreased by HRK 94 million or 2,3% to HRK 4,042 million in 2015.

Material expenses

In comparison to 2014, Material expenses increased by HRK 35 million to HRK 1,982 million in 2015 as a result of higher merchandise, material and energy expenses (up HRK 106 million or 9,1%) but partially offset by lower services expenses (down HRK 71 million or 9,1%).

The merchandise costs increase (HRK 76 million) was mainly driven by higher ICT, while fixed and mobile merchandise costs were lower compared to 2014. An ICT merchandise increase was driven by higher revenue, mostly in network infrastructure, IP communication and professional solutions. The decrease in the fixed segment was driven by residential (down HRK 20 million) due to higher costs in 2014 as a result of spill-over of gadgets from the Christmas campaign in January 2014 and lower intensity of fixed promotional campaigns in 2015. This was partially offset by higher costs in business (up HRK 5 million) due to intensive retention activities. A slight decrease in mobile merchandise costs (down HRK 3 million) was driven by the residential segment (down HRK 6 million) and offset by higher merchandise in business segment (up HRK 2 million) as a result of a shift in the handset mix towards more valuable phones.

An increase in energy sales costs and arrangement sales costs was primarily a result of a higher number of customers and was in line with the revenue increase.

A decrease in material and energy costs (down HRK 12 million) was mainly a result of outsourcing of HT's technology unit for the construction to Ericsson Nikola Tesla in Q3 2014 and savings made by the closure of exchanges a part of the PSTN migration in Q4 2014.

The decrease in services expenses (down HRK 71 million) mainly came from lower telecommunication costs and copyright fees, which were partially offset by higher online costs.

Domestic telecommunications costs declined (down HRK 77 million) mainly due to lower fixed (FTR) and mobile (MTR) unitary termination prices from January 2015 as well as lower fixed traffic by 15,1%. From total fall, HRK 57 million was from residential and HRK 32 million in the business segment, and was partially offset by higher costs coming from Optima consolidated segment in amount of HRK 12 million.

Lower copyright fees were caused by higher share of capitalized content rights contracts and lower number of TV customers by 1,5%.

An international telecommunication cost increase (HRK 28 million) was primarily due to the higher contribution of the Optima consolidated segment, in amount of HRK 37 million, and that was partially offset by lower costs from the business segment (down HRK 7 million) and residential (down HRK 2 million) segment coming from inter-operator tariff – IOT discounts.

An online costs increase (up HRK 5 million) was mainly related to the increase of the ICT standard portfolio and in line with increased revenue.

Excluding the higher Optima Telekom contribution of HRK 50 million, material expenses decreased by HRK 15 million in comparison to last year.

Employee benefits expenses

In comparison to last year, total employee benefits expenses decreased by HRK 105 million or 9,3% to HRK 1,023 million.

Excluding the impact of a decrease in redundancy costs of HRK 46 million (2015: HRK 91 million vs 2014: HRK 138 million) and the higher Optima Telekom contribution excluding exceptional items of HRK 22 million, employee benefits expenses decreased by HRK 81 million. This was mainly due to lower number of FTEs, but was partially offset by higher costs from the Collective agreement since an actuarial calculation for 2014 decreased costs in 2014 by HRK 65 million.

The number of FTEs decreased from 4,994 in 2014 to 4,742 in 2015 mainly due to headcount optimization additionally supported by new employments arising from company transformation initiatives. Optima Telekom contributed 347 FTEs.

Other expenses

Other expenses increased by HRK 31 million or 2,4% to HRK 1,342 million in 2015 primarily due to the negative effect of higher licenses and external employment. This increase was partially offset by lower rental, consultancy cost, ex-patriate costs and maintenance.

An increase in licenses was mostly driven by the new block of spectrum and due to the higher governmental spectrum fee that was introduced on 23 May 2014.

An increase in external employment mainly came from additional engagement of agency workforce in call centers and lower IVR usage, as well as additional sales activities in the residential segment.

A decrease in rental was mostly driven by a higher share of capitalization related to electronic communication infrastructure in 2015.

Lower consultancy costs in 2015 were mainly due to lower engagement of consultants related to the transformation and reorganization initiatives than in 2014.

A decrease in maintenance was a result of lower cost in the network, due to better conditions negotiated with vendors and partially offset by higher costs due to outsourcing of HT's technology unit for construction to Ericsson Nikola Tesla in Q3 2014.

In comparison to 2014, excluding the higher Optima Telekom contribution of HRK 20 million, other costs increased only by HRK 11 million, although they were under strong pressure from the regulatory regime.

Write down of assets

In comparison to 2014, the assets write down decreased by HRK 28 million or 29,7% to HRK 67 million in 2015. This decrease was mainly driven by the business segment as a result of value adjusted receivables in 2014 from domestic telecommunication operators coming from the prebankruptcy settlement and better collection of receivables in the retail part in 2015. This was partially offset with an increase in the residential segment mainly from the mobile segment.

Depreciation and amortization

In comparison to 2014, depreciation and amortization were up HRK 77 million or 5,4%. The impact of Optima Telekom consolidation rose to HRK 39 million. Despite a higher Optima Telekom contribution, an increase in depreciation and amortization was driven by higher amortization from content capitalization and the electronic communication infrastructure, for which initial recognition has been changed from operating expenses to capital expenditure.

PROFITABILITY

EBITDA before exceptional items

EBITDA before exceptional items slightly decreased by HRK 10 million or 0,4% to HRK 2,783 million in 2015 mainly as a result of lower other operating income (down HRK 26 million) while revenue rose (up HRK 11 million or 0,2%) and operating expenses excluding exceptional items were lower (down HRK 5 million or 0,1%).

Optima Telekom has been consolidated into HT Group results since 1 July 2014, and contributed to Group results in 2014 for a period of 6 months, while in 2015 it contributed for a period of 12 months. The net effect of the Optima Telekom contribution in 2015 in comparison to 2014 was higher by HRK 50 million and consisted of a HRK 101 million higher Optima Telekom third party contribution and a HRK 52 million rise in inter-companies transactions within HT Group.

EBITDA after exceptional items

EBITDA after exceptional items increased by HRK 50 million or 1,9% to HRK 2,691 million in 2015 mainly as a result of lower exceptional items related to transformation and restructuring costs of HRK 61 million (2015: HRK 91 million vs 2014: HRK 152 million)

Net profit after non controlling interests

Consolidated net profit after non controlling interests decreased by 19,1% to HRK 925 million in 2015 from HRK 1,142 million in 2014. This decrease was primarily the result of higher taxation (up HRK 180 million), amortization and depreciation (up HRK 77 million), the effect of the non controlling interest (HRK 21 million) from Optima Telekom consolidation that impacted HT Group net profit negatively, as well as lower EBITDA before exceptional items (down HRK 10 million). This decrease was partially offset by lower exceptional items (transformation related redundancy and consultancy costs down by HRK 61 million) and higher net financial income (up HRK 9 million).

The positive contribution of net financial income (up HRK 9 million) was mainly the result of higher financial income (up HRK 18 million), mainly coming from higher exchange rate gains, and lower financial expenses (down HRK 1 million). This positive contribution was partially offset by lower result from investment in joint ventures (HRK 10 million). Optima Telekom contributed to higher net financial income (up HRK 16 million).

Optima Telekom contributed to Group net profit after non-controlling interest a profit of HRK 4 million in 2015 while in 2014 it contributed a loss of HRK 1 million.

FINANCIAL POSITION

Balance sheet

The total value of assets increased by 1,7% in comparison to the end of 2014, driven by an increase in non-current assets partly due to a voluntary change of accounting policy in regards to costs related to the electronic communication infrastructure (ECI) rights of servitude and rights of way.

Total issued share capital and reserves increased from HRK 11,276 million at 31 December 2014 to HRK 11,641 million at 31 December 2015 as a result of realized net profit for 2015 in amount of HRK 925 million and dividend payment in May 2015 in the amount of HRK 573 million. An increase in ordinary share capital by HRK 940 million was due to partial reinvestment of profit for 2014.

Total non-current liabilities decreased by HRK 99 million or 15,1% mainly due to a decrease in the non-current portion of the liability for capitalized content contracts and the transfer of pre-bankruptcy liabilities of Optima Telekom to current liabilities due to maturity.

Total current liabilities decreased by HRK 28 million to HRK 1,882 million at 31 December 2015, mainly due to redundancy provisions.

Cash flow

Cash flow from operating activities is HT Group's principal source of funds, enabling the Company to finance capital investments and dividend distributions.

Compared to 2014, net cash flow from operating activities increased by 3,1% mainly due to improved active working capital driven by accounts receivables and lower tax paid.

Compared to 2014, net cash flow from investing activities increased by 54,3% mainly as a result of significantly higher inflows driven by the maturity of financial assets (mainly for time deposits and REPO arrangements).

Net cash flow from financing activities increased by 10,5% mainly due to lower dividend paid in 2015.

CAPITAL EXPENDITURE

Capital expenditure at HT Group level in 2015 was HRK 1,473 million, up 36,9% or HRK 397 million compared with 2014.

In the network and IT operations, in 2015 the focus was on the further development of the network infrastructure, increase of broadband access capacity and availability as well as IP transformation implementation to secure business continuity and long-term sustainability of market position.

By investing in the existing optical access network, HT has enabled FttH access for 171,3k households. In addition, investment in the copper access network continued with 96,3% central office locations now equipped with VDSL equipment and six projects for access network modernization completed, resulting in significant access loop shortening.

Mobile broadband deployment continued to increase coverage, capacity, scalability and the performance of mobile services. 4G download throughput has been increased up to 225 Mbps in the Zagreb LTE1800 coverage area and up to 150 Mbps in rest of LTE1800 coverage area. Total 4G population coverage increased from 45,3% at EoY 2014 to 65,0% at EoY 2015. An independent benchmark campaign in June confirmed HT as the best mobile network in Croatia, with highest 3G and 4G coverage and best performance for voice and data services (P3 Best in Test certificate).

At the end of Q4 2015, HT's 3G network had 77% population coverage indoor.

The implementation of the All-IP service platform was a strategic priority for the business transformation in the period from 2012 to 2015. In December 2015 the entire PSTN migration was completed.

As part of a strategic orientation to further enhance the customer experience and service quality in the mobile domain, a set of new solutions has been implemented (Traffica, Magamon, CEM).

In IT, activities were focused on using technology to bring about the 'digital company' business model and 'on-line' business model transformation to enable further digitalization and ensure overall company cost optimization.

In the domain of support to the business portfolio, new enhanced convergence models were implemented with new tariff options. A single point of sale and customer administration with one bill for all services is also available.

HT continued to undertake the further consolidation of the IT infrastructure, with particular emphasis on server virtualization and the modernization of storage systems, bringing increased efficiency in the billing process and preparation of data for reporting by up to 60%, stability of critical IT systems while achieving significant savings in infrastructure maintenance and electrical power consumption.

Pan IP program

Competitive pressure, decreasing revenues and ever shorter product lifecycles are major challenges for all telco operators in the EU, and as a result therefore DT has established a group wide transformation program called "PAN IP". The implementation approach follows the principle of intensive cross country and cross functional collaboration in response to major challenges in fragmented telco markets in the EU. Telco operators from large markets e.g. AT&T, Verizon etc. as well as OTT players (e.g. Google, Skype, Whatsapp etc.) attack core markets with internationally centralized production and offer ever more core Telco Services with rapid innovation speeds.

These challenges can no longer be addressed only on a national level anymore. In the face of globalized competition, digital sovereignty can only be achieved through a united effort. Therefore centralized and virtualized production are major trends in the telecommunications industry.

HT participates in the Pan IP program of Deutche Telekom, a Pan European network through which the joint production of services is being developed for Deutsche Telekom European subsidiaries that provide fixed and mobile telephony.

An integrated production model which integrates 10 productions into one Pan European production, should provide synergies in development and technological leadership, and custom products will be available locally, serving the needs of local market and create new business models.

Pan European production involved a target network/ IT infrastructure based on virtual technology. The focus is on local customer needs where companies build individual products based on the pick-and-choose approach.

The first Pan European service, VPN Cloud, was developed by experts from HT and was launched in three countries simultaneously: Croatia, Hungary and Slovakia.

As part of the PAN IP program Deutsche Telekom is in the process of establishing several Pan Net companies in other European countries. As part of this process, companies have already been established in Greece, Poland, Hungary and Croatia in 2015 and director of each PanNet company is the CTIO of the local company.

The Pan Net company is an asset company and owns the "PANNET Test Lab", the equipment necessary for testing the software and hardware purchased from external suppliers.

In Croatia, Deutche Telekom established a Pan Net company in October 2015 under the name "Deutsche Telekom PanNet Ltd. for services" in Zagreb. The Central PanNet company in Bratislava operates as a unified point of contact in relation to all operational issues of local PanNet companies, products and services, leads an action plan for products and manages it.

OVERVIEW OF SEGMENT PROFITABILITY

Disclosure

After financial consolidation of Optima Telekom into HT Group results as of Q3 2014, the HT Group's operating segments are Residential business unit, Business business unit, Network and support functions and Optima consolidated unit.

The Residential business unit (RBU) includes marketing, sales and customer care activities, focused on providing mobile, fixed line telecommunications, electricity and TV distribution services to residential customers.

The Business business unit (BBU) includes marketing, sales and customer care activities, focused on providing mobile and fixed line telecommunications, electricity and system integration services to corporate customers, small and medium business and public sector. In addition, BBU is responsible for wholesale business for both, fixed and mobile services.

The Network and support function (NSF) performs cross-segment management and support functions, including Technology department, Procurement, Accounting, Treasury, Legal and other central functions.

Companies in HT's full ownership - Iskon, Combis, KDS and E-Tours - are part of the above mentioned segments, following the same structure as the Mother Company.

The Optima consolidated unit includes the contribution of all Optima Telekom's functions to the HT Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in whole amount on Miscellaneous revenue line. According to the "Chinese walls" introduced by the regulator, access to Optima Telekom figures is limited. So only financial consolidation is performed, while Optima Telekom's non financial KPIs are not included into HT Group achievements.

In the financial reports, the HT Group's segments are reported by contribution to EBITDA before exceptional items. The revenues and expenses of the segments include primary results.

Depreciation is not allocated to the segments, except the part related to Optima Telekom, as the majority is related to the fixed and mobile network, which is part of NSF.

Residential segment

in HRK million	2014	2015	% of change A15/A14
Voice revenue	1,823	1,555	-14,7%
Non voice revenue	1,776	1,782	0,3%
Other service revenue [1]	43	45	3,2%
Terminal equipment	214	230	7,4%
Miscellaneous [1]	84	165	95,4%
Revenue	**3,942**	**3,776**	**-4,2%**
Operating expenses	**1,254**	**1,166**	**-7,1%**
Contribution to EBITDA before exceptional items	**2,687**	**2,611**	**-2,8%**

[1] In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK - 37 million) to Other service revenue (HRK + 37 milion) was made for 2014

Business segment

in HRK million	2014	2015	% of change A15/A14
Voice revenue	876	769	-12,3%
Non voice revenue	1,028	963	-6,3%
Other service revenue [1)]	648	742	14,5%
Terminal equipment	83	100	20,3%
Miscellaneous [1)]	109	144	31,9%
Revenue	**2,745**	**2,718**	**-1,0%**
Operating expenses	**1,352**	**1,364**	**1,0%**
Contribution to EBITDA before exceptional items	**1,393**	**1,353**	**-2,9%**

1) In 2015 revenue from dunning letters and default interests presented in Other service revenue, restatement from Miscellaneous (HRK-26 million) to Other service revenue (HRK +26 million) was made for 2014

Network and support functions

in HRK million	2014	2015	% of change A15/A14
Other operating income	113	96	-15,3%
Operating expenses [1)]	1,523	1,501	-1,4%
Contribution to EBITDA before exceptional items	**-1,411**	**-1,406**	**0,3%**

1) Operating expenses are restated for 2014 due to voluntary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs in 2015

Segment Optima consolidated

in HRK million	2014	2015	% of change A15/A14
Miscellaneous	221	425	92,0%
Revenue	**221**	**425**	**92,0%**
Other operating income	**11**	**2**	**-80,6%**
Operating expenses	**110**	**203**	**85,1%**
Contribution to EBITDA before exceptional items	**123**	**224**	**82,3%**

Note: Consolidation of Optima Telekom financial figures has been started since July 1st 2014, respectively Optima Telekom contribution in 2014 includes six months period result, while in 2015 includes result for the whole year. Segment Optima consolidated does not include full Optima Telekom consolidation effect since internal transactions on HT Inc and Iskon side included in business and residential segments. Including internal transactions effect, Optima Telekom's net contribution to HT Group revenue for 2015 amounted HRK 296 million while for 2014 has been amounted HRK 149 million. Respective Optima Telekom contribution to EBITDA before exceptional items amounts for 2015 amounted HRK 106 million while for 2014 has been amounted HRK 57 million.

Segment PL bridge to HT Group EBITDA

in HRK million	2014	2015	% of change A14/A13
Segment Result (Contribution to EBITDA)			
Residential Segment	2,687	2,611	-2,8%
Business Segment	1,393	1,353	-2,9%
Network and Support Functions [1)]	-1,411	-1,406	0,3%
Segment Optima consolidated	123	224	82,3%
Total Contribution to EBITDA before exceptional items	**2,793**	**2,783**	**-0,4%**
Exceptional items	152	91	-39,8%
Total EBITDA	**2,641**	**2,691**	**1,9%**

1) Network and Support Functions are restated for 2014 due to volutary change of accounting policy related to Electronic Communication Infrastructure (ECI) costs in 2015

CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY

Sustainability of business operations is an integral part of HT, as a company's reputation is dependent on far more factors than just the quality, price, or particular features of its products and services. Of equal importance are the company's attitudes towards its employees, customers, suppliers, and investors, as well as towards the environment and the society in which it operates.

The system of values that the Group promotes is defined by the Guiding Principles of the Company. The Principles provide guidelines that we need to follow in our daily work, that promote ethical behaviour, mutual respect, team work, accomplishment of the best results possible as efficiently as possible, open expression of opinions, assumption of responsibility, and the creation of an environment that encourages, recognises and appreciates exceptional results.

Compliance with laws and other regulations, observance of internal rules and the Code of Conduct are the basis of responsible corporate governance.

An external audit of T-HT's Integrated Environment, Health and Security Management System, as part of the DT AG Integrated Management System, was successfully conducted in October 2015, in line with the requirements of the ISO 14001 and OHSAS 18001 standards, and confirmed integration of environmental care into all relevant work processes and high awareness of all employees about the importance of environmental protection.

Responsibility towards the society

Donations and sponsorships

A common characteristic of all HT's charitable activities is the orientation towards projects of lasting value that incorporate technology, education, charity, and ecology. The most prominent donation projects includes the annual competition "Together We Are Stronger", through which funds are donated for projects of special importance to the community. HT has a key role in the development of the knowledge society by supporting various gatherings of scientific experts, such as WinDays, the MIPRO Conference, the Combis Conference, the Cisco Conference, and other events related to the telecommunications sector.

HT has close links with the academic community, particularly with the Faculty of Electrical Engineering and Computing (FER). Being committed to responsible business, our Company promotes the transfer of knowledge, and therefore focuses this long-standing cooperation on joint project work, scientific research, and development activities.

In 2015, the Company selected six scholarship recipients among the candidates from the Faculty of Electrical Engineering and Computing, who are made a part of our Company's life during their studies. Each scholarship recipient gets a scholarship and a mentor who will assist them in the preparation of their diploma thesis.

The partnership with the Museum of Contemporary Art (MSU) continued in 2015 as well, with the eighth consecutive annual T-HTnagrada@msu.hr award for the best Croatian contemporary work of art.

In 2015, the Company provided sponsorship support to six film festivals: ZagrebDox, Pula Film Festival, Motovun Film Festival, Vukovar Film Festival, MAXtv filmomanija, and Zagreb Film Festival.

For the eighth consecutive year, tportal ran a competition for the roman@tportal.hr literary prize worth HRK 50,000. The writer Zoran Malkoč won the grand prize for his novel "Roki Raketa".

The fifth edition of the Telekom Electronic Beats Festival Zagreb 2015, with its new concept, a duration of two days at twelve locations, with sixteen festival partners and twenty-one performers, attracted a large audience, featuring performances of some of the hottest performers of present-day electronic music.

Hrvatski Telekom was the general sponsor of the "Bug Future Show 2015" tech show and supported the biggest regional startup competition, the Idea Knockout, and enabled one team to participate in the biggest international consumer electronics show – CES 2016, including an exhibition stand at the show.

Responsibility towards employees

The focus on internal knowledge sharing as a key factor in employee development was maintained in 2015 as well, so that implementation of creative development programmes continued successfully, such as HT Academy, HT-Trainers, Training according to Your Choice, Quarterly Team Workshop, e-Learning, and the career development programme RasT.

Achieving optimal results is one of the most valued competencies in the Company. As a result, all employees have defined targets within the performance management process.

The opinions of our employees are important to us, therefore we conducted a large employee satisfaction survey in 2015 as well, focusing on all factors impacting employee commitment: job satisfaction, line manager satisfaction, strategy awareness, understanding and embracing change, and satisfaction with professional development options. A large portion of the survey was dedicated to health and stress at work topics.

The survey was supplemented by focus groups in order to obtain quality data on all areas that, as indicated by the results of the survey, needed to be improved.

In order to make the employees' work in the dynamic telecommunications industry easier and to facilitate stress management, measures and actions for the promotion of health, stress management, and maintaining a balance of professional and private life were defined and already implemented in 2015. In addition to the “Friday in Slippers“ pilot project, which allows work at home, and flexible working hours our “Healthy” (“Zdravko”) Intranet Portal intensively promotes employees’ health care and disease prevention. Physical exercises at the workplace, educational articles on health, but also free cinema and game tickets are just some of the activities covered by our “Healthy” programme.

In 2015, the Company was awarded the Mamforce Certificate – a recognised mark of quality, certifying employers’ competencies in the implementation of human potential management policies that observe family responsibility and gender equality.

Responsibility towards customers

The customer is the focal point of all activities of HT. Care about customer experience means creation of quality products, advanced technologies, and positive contacts with the customer.

HT has therefore dedicated the year 2015 to the customer and made significant improvements to the support experience, further adjusting services to the customers’ needs and employing state-of-the-art technology.

HT continuously monitors customer satisfaction, employing the TRI*M methodology and customer comments used with a view to improving its services and customer experience.

Our customers are offered support on a 24/7 basis by phone, e-mail, postal mail, fax, and via social media. Social media represent one of the most effective and immediate communication channels.

The points of contact at the call centre and in the shop are crucial for maintaining quality relations with our customers. This is why we are developing services for our customers that will greatly facilitate their contact with us and increase customer satisfaction. In 2015, we introduced Call Back, a free of charge service that will take the customer’s place in waiting for the agent to answer the call and will then call the customer back right at the moment when his/her call is about to be answered. Another innovative solution is the “Čekalica” (“Waiting Line Service”), a SMS Queue Management System that enables a customer on the move to announce his/her visit to a shop, providing an estimated time of his/her turn to come to the counter.

In addition to 24-hour support via all channels, customers also have access to a self-care service for fault repair, a unique solution on the Croatian market. ViTo is a Virtual Technician providing online diagnostics and corrective actions in just a couple of minutes for fixed network customers of Hrvatski Telekom.

Availability of the fast Internet is a strategic direction of Hrvatski Telekom, which increases its fast 3G and 4G network coverage on a daily basis and offers the largest availability of both networks in Croatia.

In February 2015, Hrvatski Telekom took a new step forward and doubled the maximum speed in its mobile 4G network from 75 Mbit/s to 150 Mbit/s. By its investments, HT dictates the pace of high-speed 4G mobile Internet development; in November 2015, HT reaffirmed its position of technology leader, being the first in Croatia to provide data transfer rates in the 4G mobile network of 225 Mbit/s. According to HT’s financial results for 2015, the 4G network coverage reached 65% of the population.

Hrvatski Telekom successfully completed the extensive process of IP transformation – modernisation of the fixed telecommunications network, within the scope of which the fixed network telephone lines of all customers were migrated to IP (Internet Protocol) technology.

HT is the third telco in the European Union that migrated all of its customers and services to All-IP network architecture. This step has just confirmed the leading position of Hrvatski Telekom on the Croatian market and created prerequisites for the provision of better-quality services to the customers, development of advanced future services, as well as a true convergence of fixed and mobile telephone and data services.

Smart City as an HT project within the broader area of the so-called Internet of Things (IoT) refers to the benefits of using information and communication (ICT) solutions and digitised processes focused on improvement of management efficiency in the city, increasing quality of life for citizens, and achieving savings. The project results have already provided proof that cities and counties are ready for the technology, through modernised record keeping on waste management, analytical review of traffic and tourist trends (Heat Maps service), IT-supported network of e-charging stations (e-mobility), digitised operation of city authorities and offices (for instance, e-bill, efficient document management in the Cloud, kindergarten entrance and exit monitoring system, and the like), as well as leading solutions in public lighting, parking, traffic, air quality supervision, and increase of energy efficiency in cities, all of the aforementioned being monitored, analysed, and controlled through a common smart city platform (IoT platform).

Responsibility towards suppliers

HT implements a Sustainable Procurement Programme for the purchase of products and services at the Group level. The Group tries to use the best value for the money invested, taking into account parameters such as price, quality, availability and functionality, impact of products and/or services on the environment, social aspects, working conditions, and human rights. The Sustainable Procurement Programme includes supply chain management with regard to social and environmental risks and the possibility for a long-term benefit for the Company, selection of suppliers according to clearly defined minimum standards (including Social Charter, Convention of the International Labour Organisation) and regular overviews that ensure compliance.

Responsibility towards the environment

HT strives to encourage a strong understanding of environmental issues amongst its staff. The majority of employees attended a course on environmental protection. Furthermore, new employees must take an initial course on environmental protection as a part of being introduced to their jobs.

HT’s car fleet is subject to constant renewal and modernisation, and it also includes approximately 70 vehicles that can run on LPG fuel considered to be the most environmentally friendly motor fuel.

Within the objective to transform its operations through automation, digitalisation, and simplification of business processes, the quantity of disposed and recycled paper waste amounted to 95 tons, which was approximately 25% less in comparison to 2014.

Alongside the regular collection of used devices in T-Centres, in 2015, HT continued the buy-back programme for old mobile devices under which customers can receive discounts when buying a new device. As the only telecommunications company in Croatia certified under the ISO 14001 Environmental Management Standard, HT is focused on the implementation of green technologies in telecommunications.

The project of promoting energy efficiency at a corporate level continued in 2015. The absolute amount of electricity consumption in 2015 showed a decrease in comparison to 2014. The key initiatives in this regard include efficient air conditioning and power supply systems, modernisation of telecommunications equipment, optimisation of the real estate portfolio, and refurbishment of property owned by HT, in line with energy efficiency principles, more extensive use of IT resources along with a range of other activities that contribute to more efficient energy consumption. Furthermore, 14 wind-solar systems produced electricity for HT's mobile network base stations in 2015.

In 2015, HT continued to conduct energy audits and energy certifications of its buildings to assist with improving the energy efficiency of its real estate portfolio. In total, 54 technology and office buildings were certified, with an average energy class D, which is satisfactory with respect to the year and type of construction, primarily due to the quality of regular maintenance, as well as materials and equipment installed.

Corporate responsibility in companies owned by HT

Combis

Combis always strives to spread its social responsibility towards the community through all aspects of the socially responsible corporate behaviour by putting the emphasis on the support to a human aspect of business. For years, Combis has supported education, health, and culture. Thus, in 2015, by means of donations and sponsorships, Combis provided support to various projects ranging from humanitarian aid, improvement and development of education, to supporting urban culture and exchange of knowledge through Croatian and regional ICT conferences.

Moreover, high expectations were met by the 9th Combis Conference held this year under the main theme "Feel Digital. Live Digital" in Šibenik, where it gathered 400 participants from Croatia and the region. The Combis Conference gathered a record number of sponsors and media sponsors, which is a significant indicator of the quality and value of this traditional gathering, as well as of the increasingly prominent need to stimulate more positive economic development by means of ICT.

In order to encourage a positive and motivating working atmosphere in its business environment, in early September 2015, Combis opened the "Zen Room", an area intended for all its employees who wish to relax, informally gather, or find inspiration for new ideas during working hours. The area for socialising and relaxing of Combis employees is equipped with a table-tennis table, table-football, darts, a massaging chair, and, as from December, with a PlayStation 4.

Iskon

In 2015, the sponsorship platform "Iskon is in Love with Good Projects" ("Iskonovci zaljubljeni u dobre projekte") included initiatives and events from the area of international original music, design, and other creative industries. All supported projects share the values of Iskon: innovation, courage, sincerity, and diversity.

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

9 February 2016

On behalf of the Group,

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

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

John M. Gasparac
Member of the Management Board

Tamara Maćašović
Certified Auditor

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HRK millions	2014 HRK millions Restated
Revenue	4	6,919	6,908
Other operating income	4	98	124
Merchandise, material and energy expenses	5	(1,272)	(1,165)
Service expenses	6	(710)	(782)
Employee benefits expenses	8	(1,023)	(1,128)
Work performed by the Group and capitalised		88	90
Depreciation, amortization and impairment of non-current assets	7	(1,492)	(1,415)
Other expenses	9	(1,409)	(1,407)
Operating profit	4	**1,199**	**1,225**
Finance income		53	36
Finance costs		(88)	(90)
Finance costs – net		(35)	(54)
Share of profit of investments accounted for using the equity method	15	4	14
Profit before income tax		**1,168**	**1,185**
Income tax expense	10	(227)	(47)
Profit for the year		**941**	**1,138**
Other comprehensive income for the year			
Items that will not be reclassified to comprehensive income			
Remeasurement of post employment benefit obligations		-	1
Items that may be subsequently reclassified to comprehensive income			
Change in value of available for sale financial assets		2	3
Other comprehensive income for the year, net of tax		**2**	**4**
Total comprehensive income for the year, net of tax		**943**	**1,142**
Profit attributable to:			
Owners of the Company		925	1,143
Non-controlling interest		16	(5)
		941	1,138
Total comprehensive income arisen from continuing operations attribut-able to:			
Equity holders of the Company		927	1,147
Non-controlling interest		16	(5)
		943	1,142
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	11	11.30 HRK	13.95 HRK

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2015

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

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

Signed on behalf of the Group on 9 February 2016:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. Corporate information

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

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

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

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

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

2.1. Basis of preparation

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

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

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

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

		Ownership interest	
Entity	Country of Business	31 December 2015	31 December 2014
Combis d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%
E-tours d.o.o.	Republic of Croatia	100%	100%
Optima Telekom d.d.	Republic of Croatia	19,02%	19,11%

2.2. Changes in accounting policies and disclosures

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

a) New and amended standards adopted by the Group

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

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

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

b) New standards and interpretations not yet adopted

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

- IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the International Accounting Standards Board (IASB) made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

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

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

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

- IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

The IASB has issued a new standard for the recognition of revenue. This will replace international accounting standard (IAS) 18 which covers contracts for goods and services, and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

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

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

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

The Group's operations and information systems are complex, and the Group has started the necessary efforts in 2015 to develop and implement new accounting policies, estimates and processes to comply with this new standard. Such effort is expected to continue through the end of 2016. As a result, at this time, it is not possible to make a reasonable quantitative estimate of the effects of this new standard on the Group's current revenue recognition policies.

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

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

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

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

2.3. Significant accounting judgments, estimates and assumptions

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

Provisions and contingencies

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

Impairment of non-financial assets

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

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

Useful lives of assets

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

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

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

Impairment of goodwill

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

Intangible assets with an indefinite life

In arriving at the conclusion that the acquired brand has an indefinite life, the Group considered the fact that the brand represents a whole business segment and relates to an operator with proven and sustained demand for its products and services in a well-established market. The brand has historically been supported through spending on consumer marketing and promotion. The Group considered other factors such as the ability to continue to protect the legal rights that arise from the brand name indefinitely and the absence of any competitive factors that could limit the life of the brand name. The Group expects continued economic benefits from the acquired brand in the future. However, a strategic decision to withdraw marketing support from the brand or the weakening in the brand's appeal through changes in customer preferences might result in an impairment charge in the future. Also, reasonable change in certain key assumptions (such as change of revenues by 10% and change in royalty relief rate by 0,1%) could result in an impairment charge of up to HRK 9 million.

Voluntary accounting policy change

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

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

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

Correction of errors in prior period financial information

I. Accounting for content contracts

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

II. Classification of Mandatory convertible loan (MCL)

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

III. Classification of long-term trade payables

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

Financial information – restatement impact

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

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

There was no impact on earnings per share for 2014.

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

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

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

Reclassifications

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

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

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

2.4. Summary of accounting policies

a) Operating profit

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

b) Business Combinations and Goodwill

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

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

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

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

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

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

c) Investment in associate

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

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

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

d) Investment in joint venture

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

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

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

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

e) Intangible assets

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

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

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

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

Useful lives of intangible assets are as follows:

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

Assets under construction are not amortised.

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

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

f) Property, plant and equipment

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

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

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

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

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

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

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

Land and assets under construction are not depreciated.

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

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

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

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

g) Investment property

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

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

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

h) Impairment of assets

Impairment of non-financial assets

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

Impairment of trade receivables

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

Impairment of available-for-sale financial assets

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

i) Inventories

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

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

j) Receivables

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

k) Foreign currencies

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

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

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

income are translated at average exchange rates of the Croatian National Bank; and
(c) all resulting exchange differences are recognized in statement of other comprehensive income.

l) Leases

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

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

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

m) Taxation

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

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

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

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

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

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

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

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

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

n) Employee benefit obligations

The Group provides other long-term employee benefits (Note 22). These benefits include retirement payments. The defined benefit obligation is calculated annually by independent actuary using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

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

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

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

o) Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

p) Cash and cash equivalents

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

q) Borrowings

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

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

r) Financial assets

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

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

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

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

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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

s) Provisions

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

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

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

t) Contingencies

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

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

u) Share-based payments

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

v) Events after reporting period

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

w) Trade payables

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

x) Dividend distribution

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

y) Earnings per share

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

z) Contributed equity

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

3. Business combinations

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

The Group's total share in Optima amounts to 19,02% as of 31 December 2015 (31 December 2014: 19,11%). Control over Optima was obtained through transfer of managerial rights in accordance with the agreement with Zagrebačka banka d.d., the single largest shareholder of Optima. The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for a participant in concentration with regard to management and control over Optima, among which is the implementation of a so called "Chinese wall" between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

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

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

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

The total cost of acquisition amounted to HRK 121 million.

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

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

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

4. Segment information

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

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

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

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

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

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

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

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

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

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

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

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

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

The majority of the Group's assets are located in Croatia. None of the Group's external customers represent a significant source of revenue.

5. Merchandise, material and energy expenses

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

6. Service expenses

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

7. Depreciation, amortization and impairment of non-current assets

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

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

8. Employee benefits expenses

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

9. Other expenses

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

10. Income tax expense

a) Tax on profit	2015 HRK millions	2014 HRK millions
Current tax expense	227	41
Deferred tax expense	-	6
	227	**47**

b) Reconciliation of the taxation charge to the income tax rate	2015 HRK millions	2014 HRK millions
Profit before taxes	1,168	1,185
Income tax at 20% (domestic rate)	234	237
Tax effect of:		
Reinvested profit not subject to tax	-	(191)
Income not subject to tax	(1)	(7)
Tax adjustment related to previous years	-	(3)
Expenses not deductible for tax purposes	4	5
Tax effects of tax loss carry forward for which no deferred income tax asset was rec-ognised	(11)	1
Other	1	7
	227	**47**
Effective tax rate	19,43%	3,97%

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

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

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

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

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

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

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

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

11. Earnings per share

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

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

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

	2015	2014
Profit for the year attributable to ordinary equity holders of the Company in HRK millions	925	1.143
Weighted average number of ordinary shares for basic earnings per share	81,884,604	81,884,604
	HRK 11,30	**HRK 13,95**

12. Intangible assets

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

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

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

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

Additions of intangible assets

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

Impairment loss

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

Disposal of intangible assets

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

Impairment testing of goodwill

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

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

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

	Optima Telekom consolidated		Residential		Business	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Growth rate	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
Discount rate	10,6%	9,9%	10,03%	9,6%	10,03%	9,6%

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

Impairment testing of brand

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

13. Property, plant and equipment

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

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

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

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

Impairment loss

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

Disposal of property, plant and equipment

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

Ownership over ducts

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

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

14. Investment property

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

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

15. Investments accounted for using the equity method

Neto knjigovodstvena vrijednost ulaganja koja se obračunavaju metodom udjela uključuje:

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

a) Investment in joint venture:

The Group has an ownership interest of 39,1% in its joint venture HT d.d. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of this company is provision of telecommunication services.

All decisions made by the Management Board and all decisions made by the Supervisory Board have to be approved by both of the majority shareholders. Therefore, the investment is classified as a jointly controlled entity. The rest of the company is mainly owned by the Federation of Bosnia and Herzegovina (50,10%).

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

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

b) Investment in associate:

The Group has an ownership interest of 30,29% in its associate HP d.o.o. Mostar which is incorporated in the Federation of Bosnia and Herzegovina. The principal activity of the associate is provision of postal services.

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

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

Summarised statement of comprehensive income:	31 December 2015 HRK millions	31 December 2014 HRK millions
Joint venture HT d.d. Mostar:		
Revenue	868	866
Depreciation and amortisation	(240)	(250)
Interest income	7	10
Interest expense	(1)	(3)
Pre-tax profit	**12**	**38**
Income tax expense	(2)	(5)
Net income	10	33
Dividends received	**-**	**17**
Associate HP d.o.o. Mostar:		
Revenue	95	98
Depreciation and amortisation	(3)	(3)
Interest income	1	1
Interest expense	-	-
Pre-tax (loss)	**(4)**	**-**
Income tax expense	**-**	**-**
Net income	**(4)**	**-**
Dividends received	**-**	**-**

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

16. Available-for-sale financial assets

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

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

Interest rate on domestic bond is 4,75%. Interest rates on foreign bonds are up to 2,25%.

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

17. Inventories

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

18. Trade and other receivables

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

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

The aging analysis of trade receivables is as follows:

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

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

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

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

19. Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

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

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

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

c) Time deposits with maturities more than 3 months

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

d) Guarantee deposits

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

e) Secured deposits (reverse REPO agreements)

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

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

20. Trade payables and other liabilities

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

21. Deferred income

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

22. Employee benefit obligations

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

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

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

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

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

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

	2015 in%	2014 in%
Discount rate (annually)	4,15	6,5
Wage and salary increases (annually)	-	2,0

23. Provisions for other liabilities and charges

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

a) Legal claims

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

b) Asset retirement obligation

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

c) Redundancy

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

24. Issued share capital

Authorised, issued, fully paid and registered share capital:

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

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

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

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

25. Legal reserves

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

26. Retained earnings

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

27. Commitments

a) Operating lease commitments

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

Operating lease charges:

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

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

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

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

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

28. Contingencies

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

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

Competition Agency proceedings regarding retransmission of football games

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

The proceeding is pending.

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

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

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

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

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

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

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

29. Balances and transactions with related parties

The transactions disclosed below primarily relate to transactions with the companies owned by 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 2015 and 2014. Further, DT AG provided technical assistance services to the Group of HRK 13 million (2014: HRK 24 million).

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

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

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

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

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32% of the share capital of DT AG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DT AG, although it only has a minority shareholding, making DT AG 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 DT AG, and consequently of the Group as well.

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

Compensation of the members Supervisory Board

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

In 2015, the Group paid a total amount of HRK 0,8 million (2014: HRK 0,6 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

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

Compensation paid to key management personnel includes:

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

30. Financial risk management objectives and policies

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

a) Credit risk

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

The Group does not guarantee obligations of other parties.

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

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

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

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

b) Liquidity risk

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

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

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

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

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

c) Interest rate risk

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

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

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

d) Foreign currency risk

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

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

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

e) Fair value estimation

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

f) Capital management

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

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

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

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

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

h) Offsetting

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

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

31. Financial instruments

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

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

32. Borrowings

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

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, and they belong to level 2 under financial instruments fair value hierarchy category, except for the bond which is level 1. The weighted average interest rate for borrowings amounts to 4,54% at 31 December 2015 (31 December 2014: 4,46%).

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

Currency breakdown of financial liabilities

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

Issued bond

Pursuant to the prebankruptcy settlement, the issued bonds are debt securities with multiple maturities. In the period from 30 May 2014 to 30 May 2017 the Company will pay semi-annual interest at interest rate of 5,25% per year, and principal will be repaid from 30 May 2017 to 30 May 2022.

33. Authorization for Services and Applicable Fees

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

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

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

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

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

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

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

b) Authorization for usage of radio frequency spectrum

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

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

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

c) Fees for providing electronic communications services

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

In 2015, the Company paid the following fees:

- the fees for the use of addresses, numbers and radio frequency spectrum pursuant to the ordinance passed by the Ministry of the maritime affairs, transport and infrastructure (in favour of State budget, Official Gazette No. 154/08, 28/09, 97/10, 92/12, 62/14 and 147/14)
- fees for the use of assigned radiofrequency spectrum pursuant to the Decision on the selection of the preferred bidder of November 6, 2013 and

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

d) Audiovisual and electronic media services

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

Also, the Company (as the operator of public communication network) is obliged to pay a fee in the amount of 0,8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

Pursuant to the Law on Electronic Media, which entered into force on 29 December 2009, the Company is obliged to pay upon the request the fee of 0,5% of the annual gross revenues realized from the provision of audiovisual media services and the electronic publication services.

e) Electronic communications infrastructure and associated facilities

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

34. Share-based and non share-based payment transactions

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

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

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

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

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

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

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

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

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

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

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

The (Matching Share Plan) MSP is program under which the participant can receive HT shares on expiry of a four-year period. The participant is obliged to invest an amount from 10% to a maximum 33,33% of the paid out gross annual variable salary to HT shares. The participant is granted one additional HT share for each share, under condition that he/she held them continuously for a period of at least four years from the date of purchase (vesting period).

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

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

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

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

35. Auditor's fees

The auditors of the Group's financial statements have rendered services of HRK 4,8 million in 2015 (2014: HRK 4,2 million). Services rendered in 2015 and 2014 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes.

36. Events after reporting period

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

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT

Independent Auditor's Report on the Annual Report

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

We have audited the consolidated financial statements of Hrvatski Telekom d.d. ("the Company") and its subsidiaries ("the Group") as of and for the year ended 31 December 2015 disclosed in the Annual Report on pages 68 to 111 and issued the opinion dated 9 February 2016 disclosed on page 67 in the Annual Report.

Management's Responsibility for the Annual Report

Management of the Company is responsible for the preparation, content and accuracy of the Annual Report of the Group for the year ended 31 December 2015.

Auditor's Responsibility

Our responsibility is to express an opinion on the consistency of the Annual Report with the consolidated financial statements referred to above, based on our verification procedures.

We conducted our verification procedures in accordance with the International Standards on Auditing. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the information included in the Annual Report which describes matters that are also presented in the consolidated financial statements ("other information") is, in all material respects, consistent with the consolidated financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the Annual Report of the Group as of and for the year ended 31 December 2015 is consistent, in all material respects, with the consolidated financial statements of the Group referred to above.

PricewaterhouseCoopers d.o.o.
Zagreb, 7 March 2016

John Mathias Gasparac
Member of the
Management Board

Tamara Maćašović
Certified Auditor

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

CONTACTS

Hrvatski Telekom d.d.
Corporate Communications
Roberta Frangeša Mihanovića 9
10000 Zagreb, Croatia
Phone: +385 1 49 12100
Fax: +385 1 49 12133
E-mail: pr@t.ht.hr
www.t.ht.hr

Please refer all questions relating
to HT Shares to:

Hrvatski Telekom d.d.
Investor Relations
Roberta Frangeša Mihanovića 9
10000 Zagreb, Croatia
Phone: +385 1 49 11114
Fax: +385 1 49 12012
E-mail: ir@t.ht.hr