Croatian Telecom Inc.

Financial statements

31 December 2014

Contents

	Page
Responsibility for the financial statements	3
Independent Auditor’s Report	4
Statement of comprehensive income	6
Statement of financial position	8
Statement of cash flows	10
Statement of changes in equity	11
Notes to the financial statements	12

Supervisory Board

The members of the Supervisory Board who served during 2014 and subsequently are as follows:

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	From 15 December 2003
Dr. Oliver Knipping	Member	From 25 April 2012
Dr. Kathryn Walt Hall	Member	Until 4 March 2014
Mark Nierwetberg M. A.	Member	From 17 June 2013
Ilias Drakopoulos, Ph. D.	Member	From 17 June 2013
Juko Cikojević	Member, workers' representative	From 1 January 2011
Damir Grbavac	Member	From 25 April 2012
Dolly Predovic	Member	From 29 April 2014

Management Board

The members of the Management Board who served during 2014 and subsequently are as follows:

Davor Tomašković	President	From 1 January 2014
Dino Ivan Dogan, Ph. D.	Member	Until 31 March 2014
Kai-Ulrich Deissner, Ph. D.	Member	From 1 August 2014
Božidar Poldrugač	Member	Until 14 March 2014
Thorsten Albers	Member	From 1 May 2014
Irena Jolić Šimović	Member	From 1 August 2006
Norbert Hentges	Member	Until 1 May 2014
Nataša Rapaić	Member	From 1 February 2013
Jens Hartmann	Member	From 17 June 2013

Responsibility for the financial statements

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

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

In preparing those 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 financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The accompanying financial statements were approved for issuance by the Management Board on 3 February 2015.

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

3 February 2015

On behalf of the Company,

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

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb CEO

Independent auditor's report

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

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements present fairly, in all material respects, the financial position of Croatian Telecom Inc. as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Emphasis of matter

Without qualifying our opinion, we draw attention to Notes 11 and 26 b) to the financial statements, which describe the uncertainty related to the ownership of distributive telecommunications infrastructure (DTI) of which the net book value recognised as assets by the Company as at 31 December 2014 is HRK 816 million. Efforts are being undertaken by the Company to obtain certain legal documents and registrations necessary to fully evidence the Company's ownership of these assets. The Company is defending a lawsuit claiming ownership of DTI in the city of Zagreb together with a demand for payment of HRK 390 million plus interest in respect of the Company's use of these assets in prior years. The Company has not recognised any adjustments to its assets and liabilities in respect of these matters due to the uncertainty as to their outcome and their impact on the financial statements.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 4 February 2015

John Mathias Gasparac
Member of the
Management Board

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

Tamara Maćašović
Certified Auditor

Statement of comprehensive income
For the year ended 31 December 2014

	Notes	2014 HRK millions	2013 HRK millions
Revenue	3	6,063	6,418
Other operating income		106	116
Merchandise, material and energy expenses		(827)	(712)
Service expenses	4	(631)	(806)
Employee benefits expenses	6	(972)	(993)
Work performed by the Company and capitalised		69	97
Depreciation, amortization and impairment of non-current assets	5	(1,298)	(1,313)
Other expenses	7	(1,319)	(1,197)
Operating profit	3	**1,191**	**1,610**
Finance income		43	51
Finance costs		(69)	(61)
Finance (costs) – net		(26)	(10)
Share from investment in joint venture	13	17	21
Profit before income tax		**1,182**	**1,621**
Income tax expense	8	(51)	(189)
Profit for the year		**1,131**	**1,432**
Other comprehensive income for the year			
Items that will not be reclassified to comprehensive income			
Remeasurement of post employment benefit obligations		1	25
Items that may be subsequently reclassified to comprehensive income			
Change in value of available-for-sale financial assets		3	(0)
Other comprehensive income for the year, net of tax		**4**	**25**
Total comprehensive income for the year, net of tax		**1,135**	**1,457**

Statement of comprehensive income (continued)
For the year ended 31 December 2014

	Notes	2014 HRK millions	2013 HRK millions
Profit attributable to:			
Owners of the Company		1,131	1,432
		1,131	1,432
Total comprehensive income arisen from continuing operations attributable to:			
Equity holders of the Company		1,135	1,457
		1,135	1,457
Earnings per share			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	9	HRK 13.81	HRK 17.48

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

Statement of financial position
As at 31 December 2014

	Notes	31 December 2014 HRK millions	31 December 2013 HRK millions
ASSETS			
Non-current assets			
Intangible assets	10	1,115	1,145
Property, plant and equipment	11	5,104	5,428
Investments in subsidiaries	12	651	530
Investments accounted for using the cost method	13	337	337
Available-for-sale financial assets	14	289	196
Loans given to subsidiary		143	133
Trade and other receivables	16	108	125
Bank deposits	17	51	21
Deferred income tax assets	8	50	58
Total non-current assets		**7,848**	**7,973**
Current assets			
Inventories	15	89	89
Trade and other receivables	16	1,023	1,089
Receivables from subsidiaries		65	25
Prepayments		224	126
Income tax prepayments		283	206
Available-for-sale financial assets	14	338	382
Bank deposits	17	1,196	931
Cash and cash equivalents	17	2,060	1,963
Total current assets		**5,278**	**4,811**
TOTAL ASSETS		**13,126**	**12,784**

Statement of financial position (continued)

As at 31 December 2014

	Notes	31 December 2014 HRK millions	31 December 2013 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued share capital	22	8,883	8,189
Legal reserves	23	409	409
Fair value reserves		2	(1)
Retained earnings	24	1,925	2,224
Total issued capital and reserves		**11,219**	**10,821**
Non-current liabilities			
Provisions for other liabilities and charges	21	62	62
Employee benefit obligations	20	8	70
Deferred income	19	3	4
Other liabilities	18	134	130
Deferred income tax liability	8	3	2
Total non-current liabilities		**210**	**268**
Current liabilities			
Trade payables and other liabilities	18	1,431	1,476
Provisions for other liabilities and charges	21	113	47
Payables to subsidiaries		53	59
Deferred income	19	100	113
Total current liabilities		**1,697**	**1,695**
Total liabilities		**1,907**	**1,963**
TOTAL EQUITY AND LIABILITIES		**13,126**	**12,784**

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

Signed on behalf of the Company on 3 February 2015:

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

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb CEO

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

Statement of cash flows

For the year ended 31 December 2014

	Notes	2014 HRK millions	2013 HRK millions
Operating activities			
Profit before income tax		1,182	1,621
Depreciation, amortization and impairment of non-current assets	5	1,298	1,313
Interest income		(24)	(31)
Interest expense		45	34
Gain on disposal of assets		(3)	(54)
Share of profit in joint venture	13	(17)	(21)
Decrease in inventories		-	44
Decrease in receivables and prepayments		(175)	(126)
Decrease/(increase) in payables and accruals		260	(116)
Decrease in employee benefit obligations	20	(62)	(52)
Decrease/(increase) in provisions		35	(146)
Other non-cash items		(4)	(3)
Cash generated from operations		2,535	2,463
Interest paid		(39)	(34)
Income tax paid		(355)	(387)
Net cash flows from operating activities		**2,141**	**2,042**
Investing activities			
Purchase of non-current assets	3, 10, 11	(876)	(1,065)
Proceeds from sale of non-current assets		13	69
Purchase of available-for-sale financial assets and deposits		(1,089)	(690)
Proceeds from sale of available-for-sale financial assets and deposits		995	313
Purchase of secured deposits (reverse REPO arrangements)	17	(798)	(463)
Proceeds from secured deposits (reverse REPO arrangements)	17	550	385
Interest received		14	24
Loans given to subsidiary		-	(24)
Acquisition of subsidiary	12	-	(8)
Dividend received	13	17	21
Net cash flows used in investing activities		**(1,174)**	**(1,438)**
Financing activities			
Repayment of content contracts		(139)	(68)
Dividends paid	24	(737)	(1,679)
Net cash flows used in financing activities		**(876)**	**(1,747)**
Net increase/(decrease) in cash and cash equivalents		91	(1,143)
Cash and cash equivalents as at 1 January		1,963	3,104
Exchange gains on cash and cash equivalents		6	2
Cash and cash equivalents as at 31 December	17	**2,060**	**1,963**

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

Statement of changes in equity
For the year ended 31 December 2014

	Issued share capital HRK millions (Note 22)	Legal reserves HRK millions (Note 23)	Fair value reserves HRK millions	Retained earnings HRK millions (Note 24)	Total HRK millions
Balance as at 1 January 2013	8,189	409	(1)	2,432	11,029
Effect of changes in accounting policies	-	-	-	14	14
Profit for the year	-	-	-	1,432	1,432
Other comprehensive income for the year	-	-	-	25	25
Total comprehensive income for the year	-	-	-	1,457	1,457
Dividends paid to equity holders of the Company	-	-	-	(1,679)	(1,679)
Balance as at 31 December 2013	**8,189**	**409**	**(1)**	**2,224**	**10,821**
Profit for the year		-	-	1,131	1,131
Other comprehensive income for the year	-	-	3	1	4
Total comprehensive income for the year	-	-	3	1,132	1,135
Capital increase	694	-	-	(694)	-
Dividends paid to equity holders of the Company	-	-	-	(737)	(737)
Balance as at 31 December 2014	**8,883**	**409**	**2**	**1,925**	**11,219**

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

1 Corporate information

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

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

The total number of employees of the Company as at 31 December 2014 was 4,325 (31 December 2013: 5,232).

The principal activities of the Company are described in Note 3.

The financial statements for the financial year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Management Board on 3 February 2015. These financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

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

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

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

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group"), which were approved by the Management Board on 3 February 2015. In the consolidated financial statements, subsidiary undertakings (Note 12) have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2014 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

2.2. Changes in accounting policies and disclosures

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

a) *Standards and interpretations effective and adopted*

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

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

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

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

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

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

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

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

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

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

b) *Standards and interpretations issued but not yet effective:*

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

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

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

2.2. Changes in accounting policies and disclosures (continued)

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

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

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

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

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Company'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 Company 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 Company uses internal and external legal experts to assess the outcome of each case and makes judgments as to if and in what amount provisions need to be recorded in the financial statements as more explained in Notes 21 and 26. Changes in these judgments could have a significant impact on the financial statements of the Company.

Impairment of non-financial assets

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

The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the financial plan covering a mid-term period. The cash flows beyond the planning period are extrapolated using appropriate growth rates given in Note 10. 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 10 and 11.

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

Useful lives of assets

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

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

	Increase/ decrease in %	Effect on profit post tax HRK millions
Year ended 31 December 2014	+10	91
	-10	(99)
Year ended 31 December 2013	+10	86
	-10	(81)

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, dividend income from associate, subsidiaries 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) Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are measured at cost less any impairment in value.

c) Investment in associate

In the Company'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 Company is measured at cost less any impairment in value. 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.

d) Investment in joint venture

The Company has an interest in a joint venture which is a jointly controlled entity, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity. This investment is measured at cost less any impairment in value. An assessment of investment in joint venture 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.

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

The Company recognizes costs of content as an intangible asset at the inception of related contract. The Company 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.

2.4. Summary of accounting policies (continued)

e) Intangible assets (continued)

Useful lives of intangible assets are as follows:

Licences and rights	
Radio frequency spectrum in 2100 MHz frequency band	15 years
Radio frequency spectrum in 900/1800 MHz frequency bands	13 years
Radio frequency spectrum in 800 MHz frequency band	11 – 12 years
Right of servitude for Distributive Telecommunication Infrastructure DTI)	30 years
Software, content and other assets	2 – 5 years

Assets under construction are not amortised.

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.

2.4. Summary of accounting policies (continued)

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

Impairment of available-for-sale financial assets

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

2.4. Summary of accounting policies (continued)

h) Inventories

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

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

i) Receivables

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

j) Foreign currencies

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

k) Leases

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

2.4. Summary of accounting policies (continued)

l) Taxation

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

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

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

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise from the manner in which the Company 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

m) Employee benefit obligations

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

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

2.4. Summary of accounting policies (continued)

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

n) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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 Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company 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 Company is acting as an agent.

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

Revenue from wholesale services includes interconnection services for domestic and international carriers, and revenue from usage of network by other operators. Revenues from the provision of its network to the provider of value added services are reported on a net basis. Revenues are exclusively the amount of the commission received.

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

2.4. Summary of accounting policies (continued)

n) Revenue recognition (continued)

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 consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total consideration and the fair value of the undelivered elements.

Revenue from internet and data services includes revenue from leased lines, frame relay, ATM, 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, the design and development of complex IT systems to a client's specifications (design and build) and WEB hosting. For bundled product arrangements, revenue recognition for each of the elements relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverable).

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

Revenues 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 Company'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 Company 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.

2.4. Summary of accounting policies (continued)

o) Cash and cash equivalents

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

p) Borrowings

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

q) Financial assets

All investments, other than loans and receivables originated by the Company, 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 Company 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.

2.4. Summary of accounting policies (continued)

r) Provisions

A provision is recognized when, and only when, the Company 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 Company is demonstrably committed to a termination of employment contracts, that is when the Company 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.

s) Contingencies

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

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

t) Share-based payments

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

u) Events after reporting period

Post-year-end events that provide additional information about the Company’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 financial statements when material.

v) Trade payables

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

w) Dividend distribution

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

2.4. Summary of accounting policies (continued)

x) Earnings per share

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

y) Reclassifications

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

- Statement of cash flows

Position	2013 As reported HRK millions	Impact on change HRK millions	2013 Restated HRK millions
Decrease/(increase) in payables and accruals	110	(226)	(116)
Purchase of non-current assets	(1,359)	294	(1,065)
Repayment of content contracts	-	(68)	(68)

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

3 Segment information

The business reporting format of the Company for the purposes of segment reporting is determined to be Residential, Business and Network & Support Function segments as the Company'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 are rendered to, 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, TV distribution services and electricity to residential customers.

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

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

The 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 II or segment results (as calculated in the table below).

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

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

3 Segment information (continued)

Residential and Business segments

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

Year ended 31 December 2013	Residential	Business	Network & Support functions	Total
	HRK millions	HRK millions	HRK millions	HRK millions
Segment revenue	3,801	2,617	-	6,418
Service revenues	*3,602*	*2,411*	-	*6,013*
Terminal equipment	*142*	*61*	-	*203*
Other	*57*	*145*	-	*202*
Usage related direct costs	(300)	(298)	-	(598)
Income and losses on accounts receivable	7	(46)	-	(39)
Contribution margin I (restated)	3,508	2,273	-	5,781
Non-usage related direct costs	(471)	(281)	-	(752)
Segment result (restated)	3,037	1,992	-	5,029
Other income	-	-	116	116
Other operating expenses	(380)	(291)	(1,551)	(2,222)
Depreciation, amortization and impairment of non-current assets	-	-	(1,313)	(1,313)
Operating profit	**2,657**	**1,701**	**(2,748)**	**1,610**

Year ended 31 December 2014				
Segment revenue	3,730	2,333	-	6,063
Service revenues	*3,395*	*2,115*	-	*5,510*
Terminal equipment	*214*	*83*	-	*297*
Other	*121*	*135*	-	*256*
Usage related direct costs	(256)	(164)	-	(420)
Income and losses on accounts receivable	(20)	(60)	-	(80)
Contribution margin I	3,454	2,109	-	5,563
Non-usage related direct costs	(531)	(343)	-	(874)
Segment result	2,923	1,766	-	4,689
Other income	-	-	106	106
Other operating expenses	(414)	(291)	(1,601)	(2,306)
Depreciation, amortization and impairment of non-current assets	-	-	(1,298)	(1,298)
Operating profit	**2,509**	**1,475**	**(2,793)**	**1,191**

3 Segment information (continued)

Revenue by geographical area

	2014 HRK millions	2013 HRK millions
Republic of Croatia	5,883	6,049
Rest of the world	180	369
	6,063	**6,418**

All of Company's assets are located in Croatia.

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

4 Service expenses

	2014 HRK millions	2013 HRK millions
Domestic interconnection	268	345
International interconnection	152	253
Other services	211	208
	631	**806**

5 Depreciation, amortization and impairment of non-current assets

	2014 HRK millions	2013 HRK millions
Depreciation	853	871
Amortization	412	390
	1,265	1,261
Impairment loss	33	52
	1,298	**1,313**

Notes 10 and 11 disclose further details on amortization and depreciation expense and impairment loss.

6 Employee benefits expenses

	2014 HRK millions	2013 HRK millions
Gross salaries	724	759
Taxes, contribution and other payroll costs	170	184
Redundancy expenses (Note 21)	137	66
Long-term employee benefits	(59)	(16)
	972	**993**

7 Other expenses

	2014 HRK millions	2013 HRK millions
Maintenance services	317	286
Rent (Note 25)	172	175
Licence cost	195	170
Advertising	102	96
Selling commissions	87	94
Contract workers	78	51
Postal expenses	43	47
Non-income taxes and contribution	39	41
Provision of trade receivables – net (Note 16)	80	38
Call centre and customer care support	31	34
Education and consulting	66	19
Write down of inventories	6	17
Daily allowances and other costs of business trips	14	16
Insurance	13	13
Loss on disposal of fixed assets	1	0
Other operating charges	75	100
	1,319	**1,197**

8 Income tax expense

a) Tax on profit

	2014 HRK millions	2013 HRK millions
Current tax expense	44	191
Deferred tax income	7	(2)
	51	**189**

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

	2014 HRK millions	2013 HRK millions
Profit before taxes	1,182	1,621
Income tax at 20% (domestic rate)	236	324
Tax effect of:		
Reinvested profit not subject to tax	(188)	(139)
Income not subject to tax	(5)	(8)
Tax adjustments related to previous years	-	8
Expenses not deductible for tax purposes	5	2
Other	3	2
	51	**189**
Effective tax rate	4.31%	11.66%

The Company utilized tax relief for 2014 based on intention of reinvesting profit in the amount of HRK 940 million in accordance with Management Board Decision (2013: HRK 694 million). In line with related tax regulations, in order to be able to use this tax incentive, the share capital increase has to be court registered within 6 months from submission of the income tax return. If subsequently the capital that was increased by reinvested profit is decreased, this may result in a future tax liability for the Company. The Company believes a future tax liability will not arise in this regard. Issued share capital was increased in 2014 in the amount of HRK 694 million. (Note 22)

8 Income tax expense (continued)

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

Deferred tax assets and liabilities recognized in:	31 December 2014	Charged/ (credited) in 2014	31 December 2013	Charged/ (credited) in 2013	Effect of changes in accounting policies	31 December 2012
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Statement of comprehensive income						
Non-tax deductible value adjustments	20	(2)	22	(1)	-	23
Property, plant and equipment write down	11	(6)	17	1	-	16
Accrued interest on legal cases	3	(1)	4	(3)	-	7
Other	16	1	15	2	-	13
	50	(8)	58	(1)	-	59
Statement of other comprehensive income					-	
Actuarial gains and losses	-	-	-	(4)	-	4
Deferred tax asset	**50**	(8)	**58**	(5)	-	**63**
Statement of comprehensive income						
Past service costs	-	-	-	(3)	3	-
	-	-	-	(3)	3	-
Statement of other comprehensive income						
Actuarial gains and losses	3	1	2	2	-	-
Deferred tax liability	**3**	1	**2**	(1)	3	**-**

8 Income tax expense (continued)

Deferred tax assets have been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets have not been discounted.

Deferred tax assets arise on the property, plant and equipment impairment, on value adjustment of receivables and inventories (materials, merchandise), and related to accruals and provisions and other temporary differences. . Out of total amount of deferred tax asset, current part amounts to HRK 35 million.

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

9 Earnings per share

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

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

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

	2014	2013
Profit for the year attributable to ordinary equity holders of the Company in HRK millions	1,131	1,432
Weighted average number of ordinary shares for basic earnings per share	81,884,604	81,885,322
	HRK 13.81	**HRK 17.48**

10 Intangible assets

	Licences	Software	Other assets	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2013					
Cost	432	2,727	254	34	3,447
Accumulated amortization	(164)	(2,195)	(160)	-	(2,519)
Net book value	**268**	**532**	**94**	**34**	**928**
Year ended 31 December 2013					
Opening net book value	268	532	94	34	928
Additions	149	212	170	87	618
Transfers	-	51	13	(64)	-
Amortization charge	(24)	(254)	(112)	-	(390)
Impairment loss	-	(5)	(6)	-	(11)
Net book value	**393**	**536**	**159**	**57**	**1,145**
As at 31 December 2013					
Cost	581	2,826	437	57	3,901
Accumulated amortization	(188)	(2,290)	(278)	-	(2,756)
Net book value	**393**	**536**	**159**	**57**	**1,145**
Year ended 31 December 2014					
Opening net book value	393	536	159	57	1,145
Additions	-	164	150	70	384
Transfers	-	80	3	(83)	-
Amortization charge	(36)	(249)	(127)	-	(412)
Impairment loss	-	(2)	-	-	(2)
Net book value	**357**	**529**	**185**	**44**	**1,115**
As at 31 December 2014					
Cost	581	2,949	577	44	4,151
Accumulated amortization	(224)	(2,420)	(392)	-	(3,036)
Net book value	**357**	**529**	**185**	**44**	**1,115**

10 Intangible assets (continued)

The intangible assets of the Company as at 31 December 2014 include four licences for use of the radio frequency spectrum (Notes 2.4. e) and 30 b)).

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

Additions of intangible assets

Major additions in the reporting period 2014 relate to applicative, system and network technology software and user licences in the amount of HRK 163 million and capitalised costs of content in the amount of HRK 147 million.

Impairment loss

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

Disposal of intangible assets

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

11 Property, plant and equipment

	Land and buildings HRK millions	Telecom plant and machinery HRK millions	Tools, vehicles, IT and office equipment HRK millions	Assets under construction and other assets HRK millions	Total HRK millions
As at 1 January 2013					
Cost	2,159	11,214	1,101	496	14,970
Accumulated depreciation	(1,122)	(7,359)	(883)	(3)	(9,367)
Net book value	**1,037**	**3,855**	**218**	**493**	**5,603**
Year ended 31 December 2013					
Opening net book value	1,037	3,855	218	493	5,603
Additions	88	308	34	311	741
Transfers	82	258	38	(378)	-
Disposals	(2)	-	(2)	-	(4)
Depreciation charge	(94)	(690)	(87)	-	(871)
Impairment loss	(17)	(20)	-	(4)	(41)
Net book value	**1,094**	**3,711**	**201**	**422**	**5,428**
As at 31 December 2013					
Cost	2,309	11,382	965	426	15,082
Accumulated depreciation	(1,215)	(7,671)	(764)	(4)	(9,654)
Net book value	**1,094**	**3,711**	**201**	**422**	**5,428**
Year ended 31 December 2014					
Opening net book value	1,094	3,711	201	422	5,428
Additions	14	353	20	185	572
Transfers	38	232	32	(302)	-
Disposals	-	(6)	(5)	(1)	(12)
Depreciation charge	(95)	(684)	(74)	-	(853)
Impairment loss	(1)	(16)	(6)	(8)	(31)
Net book value	**1,050**	**3,590**	**168**	**296**	**5,104**
As at 31 December 2014					
Cost	2,323	11,581	944	304	15,152
Accumulated depreciation	(1,273)	(7,991)	(776)	(8)	(10,048)
Net book value	**1,050**	**3,590**	**168**	**296**	**5,104**

11 Property, plant and equipment (continued)

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

Beginning in 2001, the Company 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 Company is still in the process of formally registering this legal title.

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

Impairment loss

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

Disposal of property, plant and equipment

The disposal of the property, plant and equipment primarily relates to the disposal of telecom machinery, old tools, IT, office equipment and vehicles in the gross amount of HRK 503 million (2013: HRK 622 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 Company's infrastructure that is considered as a real estate, which is also known as Distributive Telecommunication Infrastructure (DTI, TI or ducts), does not have all the necessary documents (building, use permits etc.) and the major portion of these assets are not registered in the land registry, which may be relevant to the issue of proving the ownership towards third parties. Intrusions in HT's ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb and City of Split present the majority of problems), may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for some ducts.

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

11 Property, plant and equipment (continued)

Ownership over ducts (continued)

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

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

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

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

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

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

12 Investments in subsidiaries

The net book value of investments in subsidiaries comprises:	31 December 2014 HRK millions	31 December 2013 HRK millions
Iskon Internet d.d.	330	330
Combis d.o.o.	189	189
E-tours d.o.o.	8	8
KDS d.o.o.	3	3
Optima Telekom d.d.	121	-
	651	**530**

The Company has the following subsidiaries in the Republic of Croatia:

Company	*Country of Business*	*Principal Activities*	*Ownership interest*
Iskon Internet d.d.	Republic of Croatia	Provision of internet and data services	100%
Combis d.o.o.	Republic of Croatia	Provision of IT services	100%
E-tours d.o.o.	Republic of Croatia	Provision of travel agency services	100%
KDS d.o.o.	Republic of Croatia	Provision of cable TV services	100%
Optima Telekom d.d.	Republic of Croatia	Provision of internet and data services	19,11%

Acquisition of Optima Telekom

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

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

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

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

13 Investments accounted for using the cost method

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Joint venture:		
HT d.d. Mostar	335	335
	335	335
Associate:		
HP d.o.o. Mostar	2	2
	2	2
	337	**337**

a) *Investment in joint venture:*

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

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

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

b) *Investment in associate:*

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

14 Available-for-sale financial assets

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

Issuer	*Credit rating*	*Currency*	*Maturity*	31 December 2014 HRK millions	31 December 2013 HRK millions
Domestic bond:					
Government Republic of Croatia	BB+	HRK	8 February 2017	36	35
Foreign bonds:					
Government of France	AA	EUR	25 September 2014	-	153
Government of Germany	AAA	EUR	12 September 2014	-	153
Government of Germany	AAA	EUR	13 June 2014	-	76
Government of Netherland	AAA	EUR	15 April 2015	77	77
Government of Netherland	AAA	EUR	15 April 2016	77	76
Government of France	AA	EUR	25 July 2015	184	-
Government of Germany	AAA	EUR	11 December 2015	77	-
Government of Germany	AAA	EUR	4 September 2022	84	-
Government of Germany	AAA	EUR	15 May 2023	84	-
Other				8	8
				627	**578**
Non-current				289	196
Current				338	382
				627	**578**

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

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

15 Inventories

	31 December 2014 HRK millions	31 December 2013 HRK millions
Inventories and spare parts	52	53
Merchandise	37	36
	89	**89**

16 Trade and other receivables

	31 December 2014 HRK millions	31 December 2013 HRK millions
Trade receivables	85	106
Other receivables	23	19
Non-current	108	125
Trade receivables	979	1,053
Other receivables	44	36
Current	1,023	1,089
	1,131	**1,214**

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

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	31-60 days	61-90 days	91-180 days	>180 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
31 December 2014	979	762	122	36	19	39	1
31 December 2013	1,053	757	153	40	29	73	1

16 Trade and other receivables (continued)

As at 31 December 2014, trade receivables with a nominal value of HRK 1,098 million (31 December 2013: HRK 1,083 million) were deemed impaired and fully provided for.

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

	2014 HRK millions	2013 HRK millions
As at 1 January	1,083	1,076
Charge for the year (Note 7)	150	126
Unused amounts reversed (Note 7)	(70)	(87)
Receivables written-off	(65)	(32)
As at 31 December	**1,098**	**1,083**

17 Cash and cash equivalents and bank deposits

a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

	31 December 2014 HRK millions	31 December 2013 HRK millions
Cash on hand and balances with banks	1,136	1,198
Time deposits with maturity less than 3 months	765	765
Secured deposits (reverse REPO agreements) with maturity less than 3 months	159	-
	2,060	**1,963**

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
HRK	1,994	1,851
EUR	582	634
USD	94	79
	2,670	**2,564**

17 Cash and cash equivalents and bank deposits (continued)

c) Time deposits with maturities more than 3 months

	31 December 2014 HRK millions	31 December 2013 HRK millions
Foreign bank	610	601
	610	**601**

d) Guarantee deposits

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

17 Cash and cash equivalents and bank deposits (continued)

e) Secured deposits (reverse REPO agreements)

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

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

18 Trade payables and other liabilities

	31 December 2014 HRK millions	31 December 2013 HRK millions
Content contracts	89	78
Licence for radio frequency spectrum	28	34
Other	17	18
Non-current	134	130
Trade payables	1,288	1,302
VAT and other taxes payable	72	95
Payroll and payroll taxes	53	63
Other	18	16
Current	1,431	1,476
	1,565	**1,606**

19 Deferred income

	31 December 2014 HRK millions	31 December 2013 HRK millions
Connection fee	3	4
Non-current	3	4
Prepaid vouchers	76	68
Customer loyalty programme	-	27
Connection fee	1	1
Other	23	17
Current	100	113
	103	**117**

20 Employee benefit obligations

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

Long-term employee benefits include a compensation for the employees detailed described in Note 31.

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

	2014 HRK millions	2013 HRK millions
As at 1 January	70	139
Effect of change in accounting policy	-	(17)
LTIP – Variable II (Note 31)	2	2
Service costs	5	10
Interest costs	2	7
Past service cost	(51)	(1)
Amortization losses/(gains)	(8)	(27)
Benefit paid	(7)	(11)
Curtailments	(4)	-
Actuarial losses/(gains)	(1)	(32)
As at 31 December	**8**	**70**

	2014	2013
Retirement	1	14
Jubilee	-	52
LTIP – Variable II	7	4
	8	**70**

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

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

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

21 Provisions for other liabilities and charges

	Legal claims	Asset retirement obligation	Redundancy	Variable salary	Unused vacation	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
As at 1 January 2014	39	23	-	37	10	109
Additions	13	-	137	67	8	225
Utilisation	(4)	-	(101)	(37)	(10)	(152)
Reversals	(11)	-	-	-	-	(11)
Current portion employee benefit obligations (Note 20)	-	-	-	2	-	2
Interest costs	-	2	-	-	-	2
As at 31 December 2014	**37**	**25**	**36**	**69**	**8**	**175**
Non-current	37	25	-	-	-	62
Current	-	-	36	69	8	113
	37	**25**	**36**	**69**	**8**	**175**

21 Provisions for other liabilities and charges (continued)

a) Legal claims

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

b) Asset retirement obligation

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

c) Redundancy

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

22 Issued share capital

Authorised, issued, fully paid and registered share capital:

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

Issued share capital increased in 2014 in the amount of HRK 694 million due to partial reinvestment of profit for the year 2013 in accordance with the provisions of the related tax regulations. (Note 8)

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

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

23 Legal reserves

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

24 Retained earnings

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

25 Commitments

a) Operating lease commitments

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

Operating lease charges:

	2014 HRK millions	2013 HRK millions
Current year expense (Note 7)	172	175

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Within one year	158	168
Between 1 and 5 years	519	542
Greater than 5 years	386	404
	1,063	**1,114**

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

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

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

26 Contingencies

At the time of preparation of these consolidated financial statements, there is a number of claims outstanding against the Company. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Company, except for certain claims for which a provision was established (Note 21).

a) Competition / Regulatory matters

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

Competition Agency proceedings regarding retransmission of football games

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

The proceeding is pending.

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

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

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

26 Contingencies (continued)

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 11), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHZDG") against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in the range up to 390 million plus interest.

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

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

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

27 Balances and transactions with related parties

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

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

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

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

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

27 Balances and transactions with related parties (continued)

The Company had the following balances on transactions with its subsidiaries excluding loans in the amount of HRK 143 million (31 December 2013: HRK 133 million):

Subsidiaries:	Capital expenditures HRK millions	Revenue HRK millions	Expenses HRK millions	Receivables HRK millions	Payables HRK millions
2014 / 31 December 2014	61	184	53	65	53
2013 / 31 December 2013	76	109	46	25	59

The Company was committed under contractual agreements to capital expenditure with its subsidiaries as follows:

	31 December 2014 HRK millions	31 December 2013 HRK millions
Intangible assets	18	50
Property, plant and equipment	93	30
	111	**80**

The Federal Republic of Germany is both a direct and an indirect shareholder and holds approximately 32 percent of the share capital of DTAG. Due to the average attendance at the shareholders' meetings, the Federal Republic of Germany represents a solid majority at the shareholders' meetings of DTAG, although it only has a minority shareholding, making DTAG a dependant company of the Federal Republic of Germany. Therefore, the Federal Republic of Germany and the companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence are classified as related parties of DTAG, and consequently of the Company as well. DTAG and the Company did not execute as part of its normal business activities any transactions that were individually material in the 2014 or 2013 financial year with companies controlled by the Federal Republic of Germany or companies over which the Federal Republic of Germany can exercise a significant influence.

Compensation 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, remuneration is the amount of 1.25 of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time the Chairman of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.5 of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Audit Committee of the Supervisory Board, remuneration is the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board, who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, remuneration is the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month.

27 Balances and transactions with related parties (continued)

DT AG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DT AG.

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

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

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

Compensation to key management personnel

In 2014, the total compensation paid to key management personnel of the Company amounted to HRK 25 million (2013: HRK 33 million). Key management personnel include members of the Management Boards and the operating directors of the Company, who are employed by the Company.

Compensation paid to key management personnel includes:

	2014 HRK millions	2013 HRK millions
Short-term benefits	25	33
	25	**33**

28 Financial risk management objectives and policies

The Company is exposed to international service-based markets. As a result, the Company can be affected by changes in foreign exchange rates. The Company 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 Company does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Company has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. The Company 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 Company does not guarantee obligations of third parties. The Company has issued guarantees for obligations of its subsidiary in total amount of EUR 7.8 million and HRK 3.7 million.

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

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

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Trade receivables for rendered telecom services to domestic customers	753	736
Trade receivables for rendered telecom services to foreign customers	9	21
	762	**757**

28 Financial risk management objectives and policies (continued)

b) Liquidity risk

The Company 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.

	Trade and other payables			Other non-current liabilities		
all amounts in HRK millions	Less than 3 months	3 to 12 months	*Total*	1 to 5 years	> 5 years	*Total*
Year ended 31 December 2014	1,344	87	*1,431*	119	15	*134*
Year ended 31 December 2013	1,385	91	*1,476*	113	17	*130*

c) Interest rate risk

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

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

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

28 Financial risk management objectives and policies (continued)

d) Foreign currency risk

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

A significant amount of deposits in the banks, available-for-sale financial assets, cash 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 Company’s profit post tax due to changes in the fair value of monetary assets and liabilities.

	Increase/ decrease in EUR rate	Effect on profit post tax HRK millions
Year ended 31 December 2014	+3%	14
	-3%	(14)
Year ended 31 December 2013	+3%	26
	-3%	(26)

e) Fair value estimation

The fair value of securities included in available-for-sale financial assets is estimated by reference to their quoted market price at the statement of financial position date. The Company'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 Company’s capital management is to ensure that business support and maximise shareholder value. The capital structure of the Company comprises issued capital, reserves and retained earnings and totals HRK 11,219 million as at 31 December 2014 (31 December 2013: HRK 10,821 million).

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

28 Financial risk management objectives and policies (continued)

g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

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

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

h) Offsetting

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

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

29 Financial instruments

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

	Carrying amount		Fair value	
	31 December 2014 HRK millions	31 December 2013 HRK millions	31 December 2014 HRK millions	31 December 2013 HRK millions
Financial assets:				
Cash and cash equivalents	2,060	1,963	2,060	1,963
Time deposits	610	601	610	601
Guarantee deposits, short-term	22	13	22	13
Available-for-sale assets, non-current	289	196	289	196
Available-for-sale assets, current	338	382	338	382
Secured deposits (reverse REPO agreements)	564	317	564	317
Loans given to subsidiary	143	133	143	133
Guarantee deposits, long-term	51	21	51	21
Financial liabilities:				
Interest-bearing loans	10	12	10	12

Market values have been used to determine the fair value of listed available-for-sale financial assets. The fair value of loans has been calculated by discounting the expected future cash flows at prevailing interest rates.

30 Authorization for Services and Applicable Fees

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

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

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

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

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

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

30 Authorization for Services and Applicable Fees (continued)

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

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

b) Authorization for usage of radio frequency spectrum

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

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

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

c) Fees for providing electronic communications services

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

In 2014, the Company paid the following fees:

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

30 Authorization for Services and Applicable Fees (continued)

d) Audiovisual and electronic media services

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

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

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

e) Electronic communications infrastructure and associated facilities

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

31 Share-based and non share-based payment transactions

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

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

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

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

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

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

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

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

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

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

32 Auditor’s fees

The auditors of the Company’s financial statements have rendered services of HRK 3.4 million in 2014 (2013: HRK 4.3 million). Services rendered in 2014 and 2013 mainly relate to audits and reviews of the financial statements and audit of financial statements prepared for regulatory purposes.

33 Events after reporting period

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