



# ANNUAL REPORT

2014



LIFE IS FOR SHARING.





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# FINANCIAL HIGHLIGHTS

in HRK million	2013	2014	% of change A14/A13
Revenue	7,042	6,908	-1.9%
EBITDA before exceptional items	3,065	2,786	-9.1%
Exceptional items	66	152	128.7%
EBITDA after exceptional items	2,998	2,634	-12.1%
EBIT (Operating profit)	1,632	1,223	-25.0%
Net profit after non controlling interests	1,442	1,142	-20.7%
EBITDA margin before exceptional items	43.5%	40.3%	-3.2 p.p.
EBITDA margin after exceptional items	42.6%	38.1%	-4.4 p.p.
EBIT margin	23.2%	17.7%	-5.5 p.p.
Net profit margin	20.5%	16.5%	-3.9 p.p.
<b>Balance Sheet</b>	<b>At 31 Dec 2013</b>	<b>At 31 Dec 2014</b>	<b>% of change A14/A13</b>
Total non current assets	7,729	8,200	6.1%
Total current assets	5,091	5,635	10.7%
<b>TOTAL ASSETS</b>	<b>12,820</b>	<b>13,835</b>	<b>7.9%</b>
Total issued capital and reserves	10,700	11,235	5.0%
Total non current liabilities	276	711	157.2%
Total current liabilities	1,844	1,889	2.4%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12,820</b>	<b>13,835</b>	<b>7.9%</b>
<b>Cash flow</b>	<b>2013</b>	<b>2014</b>	<b>% of change A14/A13</b>
Net cash flow from operating activities	2,131	2,288	7.4%
Net cash flow from investing activities	-1,477	-1,218	17.5%
Net cash flow from financing activities	-1,763	-923	47.6%
<b>Cash and cash equivalents at the end of period</b>	<b>2,039</b>	<b>2,192</b>	<b>7.5%</b>
CAPEX	1,426	1,073	-24.7%
CAPEX / Revenue ratio	20.2%	15.5%	-4.7 p.p.
	<b>At 31 Dec 2013</b>	<b>At 31 Dec 2014</b>	<b>% of change A14/A13</b>
ROE	13.3%	10.4%	-2.9 p.p.
ROCE	14.9%	10.2%	-4.6 p.p.
Number of employees (FTEs)	5,621	4,994	-11.2%
<b>RESIDENTIAL SEGMENT</b>			
<b>in HRK million</b>	<b>2013</b>	<b>2014</b>	<b>% of change A14/A13</b>
Revenue	3,992	3,942	-1.3%
Contribution to EBITDA before EI	2,800	2,687	-4.0%
<b>BUSINESS SEGMENT</b>			
<b>in HRK million</b>	<b>2013</b>	<b>2014</b>	<b>% of change A14/A13</b>
Revenue	3,051	2,745	-10.0%
Contribution to EBITDA before EI	1,677	1,393	-16.9%
<b>NETWORK &amp; SUPPORT FUNCTIONS</b>			
<b>in HRK million</b>	<b>2013</b>	<b>2014</b>	<b>% of change A14/A13</b>
Contribution to EBITDA before EI	-1,413	-1,417	-0.3%
<b>SEGMENT OPTIMA CONSOLIDATED</b>			
<b>in HRK million</b>	<b>2013</b>	<b>2014</b>	<b>% of change A14/A13</b>
Revenue	0	221	-
Contribution to EBITDA before EI	0	123	-

# OPERATIONAL STATISTICS

Key operational data	2013	2014	% of change A14/A13
<b>Mobile customers in 000</b>			
<b>Number of customers</b>	<b>2,303</b>	<b>2,252</b>	<b>-2.2%</b>
- Residential	1,833	1,777	-3.1%
- Business	469	475	1.3%
<b>Number of postpaid customers</b>	<b>1,070</b>	<b>1,099</b>	<b>2.7%</b>
- Residential	634	658	3.7%
- Business	436	441	1.1%
<b>Number of prepaid customers</b>	<b>1,232</b>	<b>1,153</b>	<b>-6.4%</b>
<b>Minutes of use (MOU) per average customer</b>	<b>174</b>	<b>188</b>	<b>8.2%</b>
- Residential	155	171	10.2%
- Business	249	254	2.0%
<b>Blended ARPU (monthly average for the period in HRK)</b>	<b>83</b>	<b>79</b>	<b>-4.3%</b>
- Residential	71	70	-1.4%
- Business	133	117	-11.6%
<b>Blended non-voice ARPU (monthly average for the period in HRK)</b>	<b>31</b>	<b>33</b>	<b>8.8%</b>
<b>SAC per gross add in HRK</b>	<b>104</b>	<b>123</b>	<b>18.2%</b>
<b>Churn rate (%)</b>	<b>3</b>	<b>3</b>	<b>-0.2 p.p.</b>
<b>Penetration (%) <sup>1)</sup></b>	<b>116</b>	<b>113</b>	<b>-2.4 p.p.</b>
<b>Market share of customers (%) <sup>1)</sup></b>	<b>47</b>	<b>47</b>	<b>0.1 p.p.</b>
<b>Data customers (in 000)</b>	<b>1,303</b>	<b>1,409</b>	<b>8.1%</b>
<b>Smartphone customers (%) <sup>2)</sup></b>	<b>32</b>	<b>41</b>	<b>9.2 p.p.</b>
<b>Smartphones sold (%) <sup>3)</sup></b>	<b>60</b>	<b>73</b>	<b>13.0 p.p.</b>

<sup>1)</sup> Source: published VIPnet's quarterly report for 4Q 2013 and Tele2's quarterly report for 4Q 2013. Number of customers for VIPnet and Tele2 for 4Q 2014 are internally estimated.

<sup>2)</sup> Number of customers using a smartphone handsets in total number of mobile customers

<sup>3)</sup> Number of smartphones sold in total number of handsets sold (postpaid only)

# OPERATIONAL STATISTICS

Key operational data	2013	2014	% of change A14/A13
<b>Fixed mainlines in 000</b>			
<b>Fixed mainlines - retail <sup>1)</sup></b>	<b>1,133</b>	<b>1,050</b>	<b>-7.3%</b>
- Residential	973	914	-6.1%
- Business	160	136	-15.0%
<b>Fixed mainlines - wholesale (WLR - wholesale line rental)</b>	<b>118</b>	<b>116</b>	<b>-2.2%</b>
- Residential	101	102	1.8%
- Business	18	13	-25.0%
<b>Total traffic (mill. of minutes) <sup>2)</sup></b>	<b>1,967</b>	<b>1,545</b>	<b>-21.4%</b>
- Residential	1,573	1,268	-19.4%
- Business	394	277	-29.7%
<b>ARPA voice per access (monthly average for the period in HRK) <sup>3)</sup></b>	<b>103</b>	<b>94</b>	<b>-8.9%</b>
- Residential	90	84	-6.9%
- Business	184	161	-12.1%
<b>IP mainlines/customers in 000</b>			
<b>Broadband access lines - retail <sup>4)</sup></b>	<b>628</b>	<b>614</b>	<b>-2.3%</b>
- Residential	520	512	-1.7%
- Business	108	102	-5.1%
<b>Broadband access lines - wholesale <sup>5)</sup></b>	<b>41</b>	<b>73</b>	<b>76.0%</b>
- Business	41	73	76.0%
<b>TV customers</b>	<b>391</b>	<b>393</b>	<b>0.7%</b>
- Residential	369	370	0.4%
- Business	22	23	5.0%
<b>thereof IPTV</b>	<b>340</b>	<b>333</b>	<b>-2.0%</b>
- Residential	320	312	-2.3%
- Business	21	21	1.6%
<b>thereof Cable TV</b>	<b>6</b>	<b>6</b>	<b>0.2%</b>
- Residential	6	6	0.2%
- Business	0	0	2.9%
<b>thereof Satellite TV</b>	<b>45</b>	<b>54</b>	<b>21.6%</b>
- Residential	43	52	20.5%
- Business	1	2	52.8%
<b>Fixed-line customers</b>	<b>1</b>	<b>2</b>	<b>9.0%</b>
<b>VPN connection points</b>	<b>5</b>	<b>5</b>	<b>17.1%</b>
<b>Broadband retail ARPA (monthly average for the period in HRK)</b>	<b>127</b>	<b>126</b>	<b>-0.7%</b>
- Residential	126	124	-1.3%
- Business	133	136	2.0%
<b>TV ARPU (monthly average for the period in HRK)</b>	<b>75</b>	<b>80</b>	<b>6.6%</b>
- Residential	75	79	6.4%
- Business	88	97	9.3%
<b>Data lines in 000</b>			
<b>Total data lines</b>	<b>5</b>	<b>5</b>	<b>-4.6%</b>
<b>Wholesale customers in 000</b>			
<b>CPS (Carrier Pre-Selection)</b>	<b>23</b>	<b>14</b>	<b>-37.1%</b>
<b>NP (Number portability) users/number</b>	<b>722</b>	<b>736</b>	<b>2.0%</b>
<b>ULL (Unbundled Local Loop)</b>	<b>173</b>	<b>168</b>	<b>-2.7%</b>

<sup>1)</sup> Includes PSTN, FGSM and old PSTN Voice customers migrated to IP platform; payphones excluded

<sup>2)</sup> Total traffic is generated by fixed retail mainlines as defined in note 1.

<sup>3)</sup> Payphones excluded

<sup>4)</sup> Includes ADSL, FTTH and Naked DSL

<sup>5)</sup> Includes Naked Bitstream + Bitstream



## **Presentation of information in the Annual Report**

Unless the context otherwise requires, references in this publication to "HT Group" or "the Group" or "T-HT" are to the Company - Hrvatski Telekom d.d., together with its subsidiaries.

References to "HT" or "Company" are to the Company - Hrvatski Telekom d.d.

References to "Iskon" are to the Company's wholly-owned subsidiary, Iskon Internet d.d.

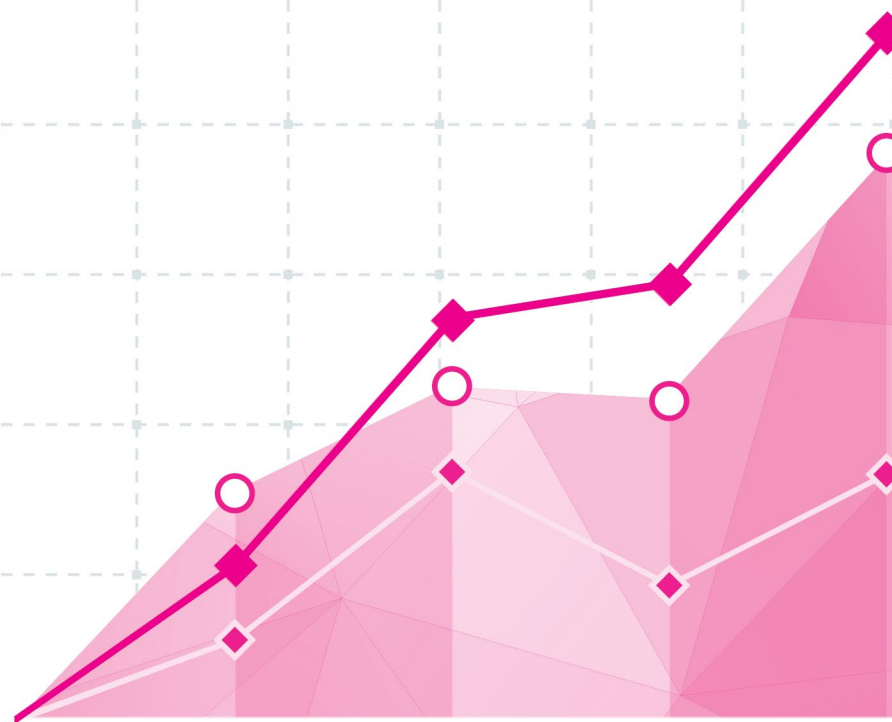
References to "Combis" are to the Company's wholly-owned subsidiary, Combis, usluge integracije informatičkih tehnologija d.o.o.

References in this publication to "Agency" are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.

Presented financial figures may slightly differentiate from Consolidated Financial statements due to rounding principle (in Consolidated Financial statements all mathematic operations are performed with numbers without decimal places).

# INTRODUCTION

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# LETTER TO SHAREHOLDERS



## Dear shareholders,

I am pleased to announce that we have closed the year 2014; it was the first fiscal year under the new leadership and with me at the helm, as the President of the Management Board. Together with my colleagues on the Management Board, managers and other employees, we have posted results that, we believe, will satisfy all the shareholders of Hrvatski Telekom.

Allow me, please, to elaborate on the results of the previous year as well as on our plans for the year 2015.

In 2014 Hrvatski Telekom generated revenue amounting to HRK 6.908bn, which means that we have nearly stabilized our revenues despite the continued economic crisis, intense competition, growing regulatory pressures and declining market, with a minimal drop of 1.9 percent year-over-year.

Furthermore, we have maintained the leading position in all the segments of the telecommunications market; I would like to highlight here the continued revenue growth in the ICT, mobile internet and TV services segments.

As announced, in 2014 Hrvatski Telekom underwent a significant transformation, turning into a more efficient and faster organization. We closed the year with a hundred fewer managers, which is a 31 percent drop in headcount. Moreover, a new Collective Agreement was agreed with the Unions, providing a high level of rights to the Company's employees, but also reflecting the present economic situation and conditions under which the Company is operating. An additional increase in efficiency was achieved by outsourcing the services of construction and maintenance of our infrastructure;

consequently, 640 of HT's employees transferred to a newly established Ericsson Nikola Tesla's daughter company. The said transformation was necessary so as to form the basis for further growth and business expansion under the conditions of a lasting crisis and a continued drop in the value of the telecommunications market.

Furthermore, in 2014 we worked intensively on the PSTN to IP migration; thus far 75.4 percent of residential and business customers have migrated to IP.

As regards the fixed communications market, Hrvatski Telekom has retained its leading position in all the segments (voice, internet and TV), despite the overall drop in the market and fierce competition from 13 different operators. Furthermore, we have made a huge step forward in the fast internet segment by expanding the services available on our fiber optic infrastructure and lowering service prices. As regards TV services, the year was marked by the introduction of additional offers, new technologies, and forming of partnerships providing our customers with new, top-quality content.

Moreover, last year the fixed communications market was marked by the completion of Optima Telekom's pre-bankruptcy settlement procedure. Optima Telekom was fully consolidated into HT Group's financial statements as of July 1, 2014, following the taking of control over Optima Telekom by HT, in accordance with an agreement with the major shareholder Zagrebačka Banka.

As regards mobile communications, last year Hrvatski Telekom maintained its stable, leading market share of 46.7 percent. The said segment's revenues were particularly affected by the Croatian government's decision to increase the annual fee for the use of the

radiofrequency spectrum in the public mobile communications network threefold – that is, HT now has to pay HRK 138m more each year.

Even though HT's 2014 business expenses had gone up over the Company's transformation and introduction of the new radiofrequency fee, we posted EBITDA before exceptional items of HRK 2.786bn, with an EBITDA margin before exceptional items of 40.3 percent.

Having in mind the need for further investments in the ever competitive market, the Management Board and the Supervisory Board have made a proposal to the General Assembly to reinvest a portion of the net profit generated by HT d.d. and make a dividend payment. Should the General Assembly accept the proposal, the shareholders will be paid a dividend of HRK 573.2m, or HRK 7 per share, which is 50.7 percent of the generated net profit of HRK 1.131bn.

The 2014 increase in the organization's efficiency is the first step toward increasing the quality of both service and customer experience, something that HT's operations will be focused on in 2015. There is considerable room for improvement in that particular segment and the key goal is to turn HT into a provider of the fastest and best-quality services in the Croatian market.

Furthermore, in 2015 we plan to invest HRK 1.350bn, up by around 25 percent year-over-year. We intend to focus on improving customer experience and developing fast internet technology, in both mobile and fixed communications. We have already made the first step by investing in the additional radiofrequency spectrum in the

1800 MHz area. That has enabled us to be the first in Croatia to double the internet access rates in our 4G network from 75 Mbit/s to 150 Mbit/s. Moreover, by year-end we plan to achieve coverage in fixed broadband internet access of more than 50 percent, with a minimal speed of 30 Mbit/s, while the mobile broadband internet access should exceed 60 percent, with speeds of up to 150 Mbit/s.

Our leadership in technology is the basis for both development and offering the best customer experience. We have set our goals rather high; however, we are confident the goals are realistic and based on the expertise, motivation and daily efforts of our employees.

By meeting those goals we will additionally strengthen HT's position in the market and open up new opportunities for the growth of revenues and profitability, thus creating a new value for you, our shareholders.

I would like to thank all of you, our shareholders, for your trust in us, and all the employees and members of the Management Board and the Supervisory Board for their dedicated work. I believe the year 2015 will be yet another successful business year for us.



DAVOR TOMAŠKOVIĆ  
President of the Management Board

# CORPORATE PROFILE

## At a Glance

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

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

## History and Incorporation

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

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

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunications services. HTmobile commenced commercial activities on 1 January 2003 and in October 2004, the company's name was officially changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded in T-HT, thus becoming a part of the global “T” family of Deutsche Telekom. This

evolution of the corporate identity was followed by the creation of trade marks for the two separate business units of the Group: the fixed network operations business unit, T-Com - which also provided wholesale, Internet and data services; and the mobile operations business unit, T-Mobile.

17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the LoP.

In May 2006, the Company acquired 100% of shares of Iskon Internet d.d., one of the leading alternative telecom providers in Croatia. In the continuation of the privatization of HT d.d., on 5 October 2007, the Republic of Croatia sold 32.5% of T-HT ordinary shares by Initial Public Offering (IPO). Of the total shares in the Offering, 25% were sold to Croatian retail investors, while 7.5% were acquired by Croatian and international institutional investors.

Following the sale of shares to current and former employees of Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, giving private and institutional investors 38.5% in total.

In October 2009, T-Mobile Croatia was merged into HT d.d., effective as of 1 January 2010. Group was organised into Residential and Business units. The Company's registered name was changed from HT - Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d. on 21 May 2010.

On 17 May 2010, HT d.d. completed the acquisition of IT services company Combis d.o.o., extending its reach into the provision of IT software and services for a client base that ranges from small businesses to government departments.

In December 2010, the Republic of Croatia transferred 3.5% of its shares in the Company, to the Pensioners' Fund. On 12 December 2013, the Pensioners' Fund transferred 3.5% of shares in the Company to the account of the Restructuring and Sale Center – CERP. CERP was founded by the Republic of Croatia in July 2013 as legal successor to the Government Asset Management Agency. As a result, the Republic of Croatia again holds a stake in Hrvatski Telekom d.d.

In June 2014 T-HT took over management of OT-Optima telekom (“OT”), following the completion of the pre-bankruptcy settlement procedure. By the conversion of claims into share capital as a part of the pre-bankruptcy settlement procedure, and following the realisation of a Mandatory Convertible Loan instrument in July 2014, T-HT has acquired total of 19.1% of Optima's share capital.

Zagrebačka banka, as the largest creditor of OT, transferred controlling rights acquired in the pre-bankruptcy settlement procedure to T-HT. AZTN, Croatian competition agency, has determined a set of measures defining the rules of conduct for T-HT with regard to management and control over OT. The duration of the concentration of T-HT and Optima shall be limited to a period of four years, starting from T-HT's acquisition of control over OT.

# INVESTOR INFORMATION

## Economic environment and share price performance

2014 brought a mixed performance in the global equity markets with the US, following improved economic growth and amidst a supportive U.S. Federal reserve policy, hitting record highs. Japan also had a strong year, while European markets struggled in the face of tougher than expected economic conditions and concerns over geopolitical tensions. The FTSE 100, for example, lost around 3% of its value due largely to its higher exposure to the poor-performing oil and basic material sectors.

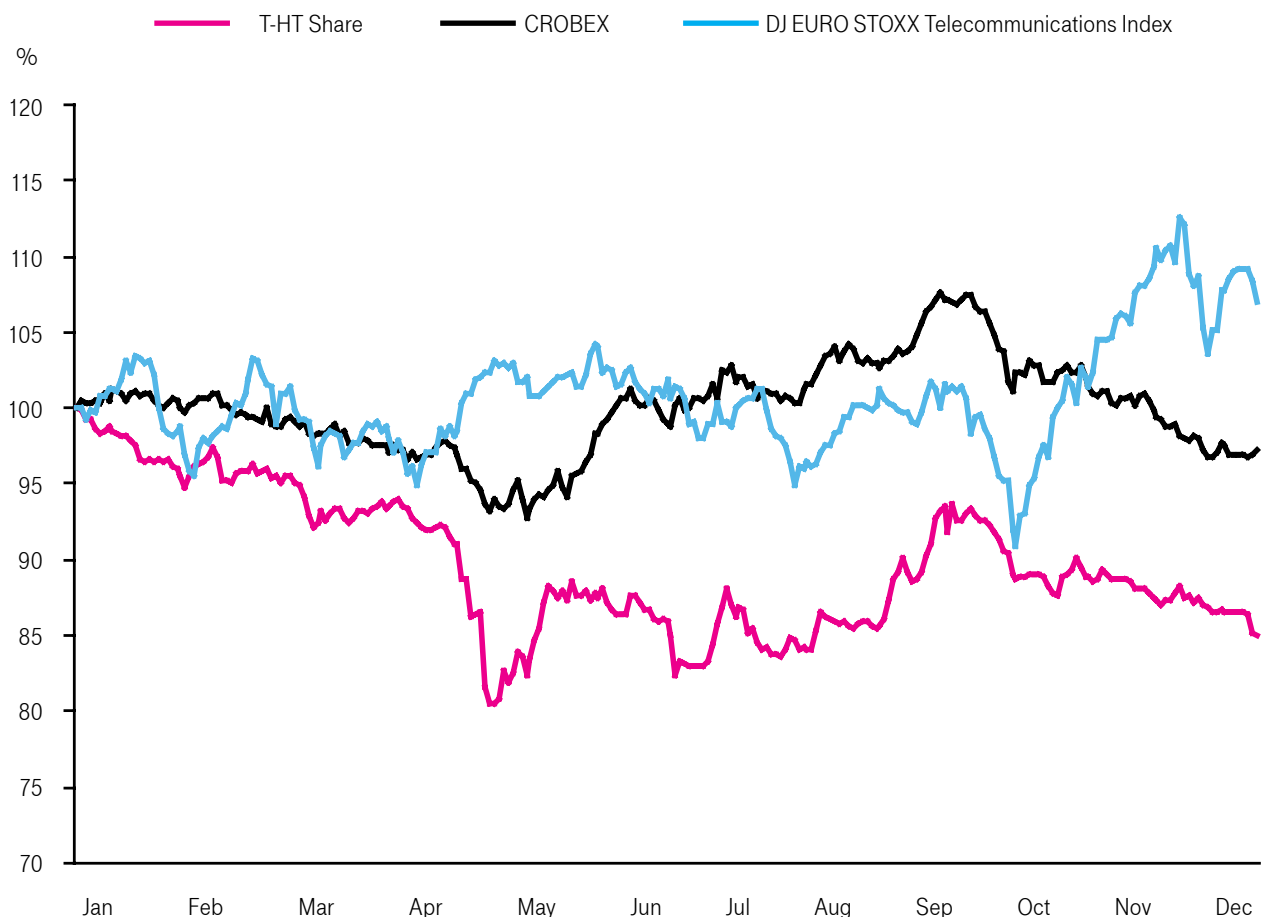
Sentiment over the year on the Croatian stock market remained downbeat, with a predominantly stable performance: flat stock trading volumes and CROBEX, the local benchmark index, closing the year 2.7% lower. In 2014, Croatia saw a sixth consecutive year without GDP growth, along with a constantly rising trend in public debt and in the budget deficit. Croatia's parliamentary elections, scheduled for late 2015, are expected to further postpone long

overdue fiscal consolidation and structural reforms in the domestic economy.

T-HT shares ended the year at HRK 150.50, down 14.8% on the HRK 176.65 closing price at the end of 2013. The price decline was primarily seen in the second quarter of the year, following the ex-dividend date and the imposition of a new spectrum fee. The year's highest price was HRK 176.95, with the lowest being HRK 141.15 (Source: Zagreb Stock Exchange).

The underperformance of the Share price vis a vis the Dow Jones Euro Stoxx Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some Europe's largest telecom companies) resulted from a significant rise in the Index in the fourth quarter of the year mainly due to expectations of a more favourable future regulatory framework than previously anticipated, consolidation in the European telecommunications sector and improvements in business performance.

## T-HT Share as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index, 1 January 2014 - 31 December 2014





Whilst volumes traded were down 4.3% from the previous year, T-HT was once again the most traded share on the Zagreb Stock Exchange, with HRK 507 million of turnover, accounting for 18.8% of the ZSE's total trade by value of shares in 2014 (2013: HRK 530 million, 19.4%). To support liquidity in the shares, two Agreements on Market Making Services were signed in July 2013 and these remained in effect in 2014.

In terms of free float market capitalisation, as at 31 December 2014, T-HT was the largest company on the ZSE with HRK 5.2 billion (EUR 681 million), representing 18.5% of the total free float market capitalization by value (Source: Zagreb Stock Exchange).

At the last revision of the CROBEX index in September 2014, T-HT's weighting was again set at 10% of the index.

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

The Company has decided to terminate the GDR program and delist its GDRs from the LSE due to the low number of GDRs in facility and their low trading volume on the LSE, making the economic rationale for continuing to list on the LSE unconvincing.

In October, at a conference of the Zagreb Stock Exchange and Croatian investment fund industry, T-HT was ranked third in the Investor Relations Award in Croatia in 2014, sponsored by popular business newspaper Poslovni dnevnik (T-HT won the top award for best IR in the two previous consecutive years).

In November, at the 4th Regional Investor Conference in Belgrade, as part of the 13th International Conference of the Belgrade Stock Exchange, organized in cooperation with the investment company Wood & Company from Prague, T-HT received the Best Regional Investor Relations Award in 2014. A regional rating of listed companies was conducted for the first time, incorporating 16 companies from five countries.

In December, at the presentation ceremony of the Zagreb Stock Exchange Awards for 2014, T-HT received the award for the "Share with highest turnover" for the third consecutive year.

## Dividend policy

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

The future dividend policy should be that any dividends declared and paid in respect of any year following the year in which Offering takes place, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash re-

quirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

## Dividend for the 2013 financial year

On 29 April 2014, the General Assembly of the Company approved a dividend payment to shareholders of HRK 736,961,436.00 (HRK 9.00 per share) representing a dividend payout ratio of 51.5%. The dividend was paid in May 2014.

At the end of 2014, this represented a dividend yield of 6.0% on T-HT's closing price of HRK 150.50.

## Dividend proposal for financial year 2014

The Management Board and Supervisory Board of Hrvatski Telekom d.d. propose to this year's General Assembly the following utilisation of the Company's 2014 financial year net profit:

- a portion of net profit in the amount of HRK 940,000,000.00 is allocated for reinvestment and shall be used to increase the share capital
- a portion of net profit in the amount of HRK 34,700,000.00 will be allocated to legal reserves
- the remainder of the net profit in the amount of HRK 155,969,208.06 will be allocated to retained earnings.

At the same time, the Management Board and Supervisory Board propose the distribution of a dividend in the amount of HRK 573,192,228.00 or 7.00 HRK per share, out of retained earnings from the year 2009.

The General Assembly has been convoked for 29 April 2015. According to the proposal, the above mentioned dividend will be paid on 25 May 2015 to shareholders registered at the Central Depository and Clearing Company (SKDD) on 11 May 2015.

Taxation of dividends, at the rate of 12%, was introduced as of 1 March 2012.

## Financial Calendar

	Date
Release of full year 2014 results	12 February 2015
The General Assembly of the Company	29 April 2015
Release of first quarter 2015 results	30 April 2015
Release of first half 2015 results	30 July 2015
Release of first nine months 2015 results	29 October 2015

The above-mentioned dates are subject to change



## General information on Shares

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

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# MANAGEMENT BOARD



**DAVOR TOMAŠKOVIĆ**  
**President of the Management Board (CEO)**

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

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

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

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

As of 1 January 2014 Mr. Tomašković performs the function of President of the Management Board of HT d.d.



**IRENA JOLIĆ ŠIMOVIĆ**  
**Member of the Management Board and Chief Human Resources Officer**

Irena Jolić Šimović was born in 1969. She graduated from the Faculty of Economics in Zagreb and received an MBA from IEDC, Bled, Slovenia. Prior to joining Hrvatski Telekom in 1998, she worked at Croatian Radio and Television (HRT), the Ministry of the Sea, Transport and Communications and the Ministry of Immigration.

She was Executive Director for Corporate Strategy and Business Development until August 2006, when she was appointed Member of T-HT's Management Board and Chief Human Resources Officer. Irena Jolić Šimović was Chief Operating Officer T-Com from October 2008 until December 2009. Following the Group's restructuring in January 2010, she became Chief Operating Officer Business with responsibility for Sales, Marketing, Customer Service, Wholesale and ICT Business Solutions.

In March 2010, Irena Jolić Šimović was honoured as one of the World Economic Forum's Young Global Leaders 2010, a unique community of exceptional young leaders who share a commitment to shaping the global future.

In September 2012 she was again appointed Chief Human Resources Officer.



**NATAŠA RAPAČIĆ**  
**Member of the Management Board and Chief Operating Officer Residential**

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

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

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

In 2010 she took over the position of the Operating Director of the Residential Marketing Sector and as of 1 February 2013 performs the function of Member of the Management Board of HT d.d. and Chief Operating Officer Residential.



**JENS HARTMANN**  
**Member of the Management Board and Chief Operating Officer Business**

Mr. Hartmann was born in 1974. Upon completion of Business Management studies in Germany, Mr. Hartmann took a position at the global consultancy McKinsey & Company, where he participated in a range of programs for improvement of strategy, sales and corporate finance in the telecommunications and in other sectors. From 2008 on, Mr. Hartmann has gained substantial knowledge and experience in senior managerial positions in the business customer segment of T-Systems and Deutsche Telekom in Bonn, where he played a key role in the strategic development of business, including product portfolio and innovation management, market positioning, sales organization improvement and customer segmentation. As of 17 June 2013, Mr. Hartmann performs the function of Member of the Management Board and Chief Operating Officer Business of Hrvatski Telekom.

# MANAGEMENT BOARD



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

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

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

From 2003 Mr. Albers was responsible for the coordination of projects of the Management Board member and CTO in Magyar Telekom on the Deutsche Telekom level. He joined Makedonski Telekom in 2008 as Management Board member and CTO and, from 2011 up to joining Hrvatski Telekom, he was CTO of Makedonski Telekom and T-Mobile Macedonia. As the leading man for technology in Makedonski Telekom, Mr. Albers played a key role in the successful implementation of the IP migration project. The Supervisory Board of HT appointed him as the Member of the Management Board and Chief Technical and Chief Information Officer of Hrvatski Telekom. Mr. Albers took over this position as of 1 May 2014.



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

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

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

## Compensation to the Management Board members in 2014

Davor Tomašković, President of the Management Board from 1 January 2014, was paid a fixed salary in gross amount of HRK 1,818,428. Other benefits amounted gross to HRK 247,267 (company car usage and other). The gift for children was paid in amount of HRK 1,200 net.

Nataša Rapaić, Member of the Management Board, was paid in 2014 a fixed salary in gross amount of HRK 1,388,492. Variable part according to 2013 goals achievement amounted to HRK 93,206 net. Other benefits amounted gross to HRK 52,518 (company car usage). The gift for child was paid in amount of HRK 600 net.

Irena Jolić Šimović, Member of the Management Board, was paid in 2014 a fixed salary in annual gross amount of HRK 1,334,915. Variable part according to 2013 goals achievement amounted to HRK 94,117 net. Other benefits amounted gross to HRK 54,068 (company car usage). The gift for child was paid in amount of HRK 600 net.

Thorsten Albers, Member of the Management Board, from 1st May 2014, was paid in 2014 a fixed salary in gross amount of HRK 1,791,532. Other benefits amounted gross to HRK 795,329 (insurance, apartment rental and company car usage).

Dr. Kai-Ulrich Deissner, Member of the Management Board, from 1 August 2014, was paid in 2014 a fixed salary in gross amount of HRK 964,539. Other benefits amounted gross to HRK 121,720 (insurance, apartment rental and company car usage).

Jens Gerhard Hartmann, Member of the Management Board was paid in 2014 fixed and variable salary in annual gross amount of HRK 2,248,084. Other benefits amounted gross to HRK 674,887 (insurance, apartment rental and company car usage).

Božidar Poldrugač, Member of the Management Board, until 14 March 2014, was paid in 2014 a fixed salary in gross amount of HRK 303,433. Variable part according to 2013 goals achievement amounted to HRK 108,234 net. Other benefits amounted gross to HRK 26,230 (company car usage).

Dr. Dino Ivan Dogan, Member of the Management Board, until 31 March 2014, was paid in 2014 a fixed salary in gross amount of HRK 570,762. Variable part according to 2013 goals achievement amounted to HRK 212,211 net. Other benefits amounted gross to HRK 13,930 (company car usage). When leaving the company severance payment was paid in amount of HRK 1,192,248 net.

Norbert Hentges, Member of the Management Board, until 30 April 2014, was paid in 2014 fixed and variable salary in gross amount of HRK 2,107,743. Other benefits amounted gross to HRK 147,469 (insurance, apartment rental and company car usage).

Ivica Mudrinić, President of the Management Board until 31 December 2013, was paid in 2014 fixed part of the salary for December 2013 in gross amount of HRK 200,196. Variable part according to 2013 goals achievement amounted to HRK 332,475 net.

## Long Term Incentive Plans for management

Long-term incentive plans (LTIPs – HT Variable II 2011, HT Variable II 2012, HT Variable II 2013 and HT Variable II 2014) exist at Group level to ensure competitive total compensation for members of the Management Board, senior executives and other beneficiaries. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders. Transitional HT MTIP 2011 ended on 31 December 2013, but in 2014 there was no reward payment to participants, because Transitional HT MTIP 2011 targets, were not achieved, 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 rewarded amount is 30% or 20% of the participants' individual annual salary as contracted on the beginning of the plan, depending on management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual total fixed salary and the annual variable salary in case of a 100% target achievement.

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. Compensation model for International Business Leaders (BLT's) consists of Variable I (annual variable salary), Variable II and Matching Shares Plan – MSP introduced in 2011. In 2014, there was no realization of the new Matching Share Plan, due to the leaving of former International Business Leader (BLT) at the end of 2013.

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).

In December 2014, HT Supervisory Board adopted a new performance management model "Lead to win" for senior management of companies within DT Group, which applies from 1 of January 2015. This program continues to reward top management which is now directly linked to individual performance and the achievement of collective telecom KPIs performance on level of the DT Group. In order to achieve sustainable goals and be leading telecom company, reward must show that all the top management working towards a common goal: sustainable success of Deutsche Telekom AG worldwide. It is therefore introduced a corporate plan instead of many isolated individual plans.

# SUPERVISORY BOARD

Mark Klein	Chairman	Member from 25 April 2012 Chairman from 10 September 2012
Ivica Mišetić Ph.D.	Deputy chairman	Member from 21 April 2008 Deputy chairman from 8 May 2008
Dr. Ralph Rentschler	Member	From 15 December 2003
Dr. Oliver Knipping	Member	From 25 April 2012
Mark Nierwetberg M. A.	Member	From 17 June 2013
Ilias Drakopoulos Ph.D.	Member	From 17 June 2013
Juko Cikojević	Member, workers' representative	From 1 January 2011
Damir Grbavac	Member	From 25 April 2012
Dolly Predovic	Member	From 29 April 2014

## Compensation of the Supervisory Board

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

in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, in the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month. DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG.

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.

## Compensation to the Supervisory Board members and the member of the Sustainability Committee of SB in 2014

		The period of 2014 in which the fee is paid		
		From	To	Gross 1 (HRK)
<b>Juko Cikojević</b>	SB member	1 January	31 December	165,493
<b>Kathryn Hall</b>	SB member	1 January	4 March	50,973
<b>Dolly Predovic</b>	SB member	30 April	31 December	114,161
<b>Ivica Mišetić</b>	SB member	1 January	31 December	206,866
<b>Damir Grbavac*</b>	SB member	ended 31 December 2014 - fee for December 2013		13,032
<b>Ante Ramljak</b>	Sustainability Committee member	1 January	30 October	37,931
<b>Total</b>				<b>588,456</b>

\*He relinquished his rights to compensation for the year 2014, the latest payment was for December 2013.



# SUPERVISORY BOARD REPORT

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

## REPORT

on performed supervision during the business year 2014 and on the results of the examination of the business and financial reports for the business year 2014

The content of this report includes:

- in which manner and to which extent the managing of the Company has been monitored by the Supervisory Board during the business year 2014,
- the results of the examination of the annual financial statements as of 31 December 2014 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2014,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

## Corporate Profile

On 31 December 2014 significant Company shareholders are as follows.

As of February 2014, CMobil B.V. is the majority shareholder with a 51 per cent holding in the Company. (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.).

The Croatian War Veterans' Fund owns 7.0 per cent of shares and Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center), legal successor to the Government Asset Management Agency, owns 3.5 per cent of shares of the Company. The remaining 38.5 per cent of shares are owned by Croatian citizens and by other domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds (category A and category B) are investors with the largest shareholding among the private and institutional investors, with a 8.2 per cent holding in the Company.

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

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

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

Global Depository Receipts (GDR), each having represented one (1) HT d.d. share, have been delisted from the London Stock Exchange as of 6 October 2014, due to the low number of GDRs in facility and their low trading volume on the LSE, having made the economic rationale for continuing to list on the LSE unconvincing.

## Supervisory Board

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

During 2014, the composition of the Supervisory Board of the Company changed as follows:

Independent Member of the Supervisory Board, Mrs. Kathryn Walt Hall, has resigned from her positions in the Supervisory Board and in the Compensation and Nomination Committee of the Supervisory Board, with effect as of 4 March 2014.

Mrs. Dolly Predovic was elected as new Member of the Supervisory Board and was also appointed as Member of the Compensation and Nomination Committee, with effect as of 29 April 2014.

In November 2014 the Workers' Council appointed Mr. Juko Cikojević as Workers' Representative for another term of office, with effect from 1 January 2015.

## Audit Committee

Mr. Axel Brandes, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Franco Musone Crispino, Member, are the members of this Committee.

## Compensation and Nomination Committee

Mr. Mark Klein, Chairman, Dr. Ralph Rentschler, Member, and Mrs. Dolly Predovic, Member, are the members of this Committee.

## Sustainability Committee

The Sustainability Committee was established in 2013 for the purpose of involvement of the Supervisory Board in sustainability within HT d.d. and overseeing the regular Report on sustainability. Starting from 2012, when the first Report was issued applying the GRI (Global Reporting Initiative) indicators, reporting on sustaina-

bility has been defined to take place in the future biennially.

The Committee consisted of three members, two external experts, Mr. Ante Ramljak and Mrs. Birgit Klesper, and one member of the Supervisory Board, Dr. Oliver Knipping, who was also Chairman of the Committee. Mr. Ante Ramljak has resigned, with effect as of 30 October 2014.

The Sustainability Report was published in September 2014, and it reflects a high quality standard in reporting on sustainability within the Company. The mission of the Sustainability Committee has thereby been accomplished, and in December 2014 the Supervisory Board passed the decision on its dissolution.

## Management Board

The Management Board of the Company has six members, whereby the position of Chief Customer Experience Officer (CCO) is vacant, and activities falling within these Officers' responsibilities are temporarily assigned to the function of the President of the Management Board and CEO, Mr. Davor Tomašković.

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

Mr. Davor Tomašković was appointed as the President of the Management Board (CEO), as of 1 January 2014.

The term of office of Mr. Božidar Poldružač, Member of the Management Board and Chief Technical and Information Officer (CTIO), has expired on 14 March 2014.

The term of office of Mr. Dino Ivan Dogan, Ph.D., Member of the Management Board and Chief Financial Officer (CFO), has expired on 31 March 2014.

Mr. Norbert Hentges resigned from his position of the Management Board and Chief Operating Officer (COO), effective as of 1 May 2014.

The Supervisory Board has adopted the new division of competences among Management Board Members. In line therewith function of Chief Customer Experience Officer (CCO) was introduced, and function of Chief Operating Officer (COO) was desintegrated, applicable as of 1 May 2014.

Mr. Thorsten Albers was appointed as Management Board Member and Chief Technical and Information Officer (CTIO), as of 1 May 2014.

Dr. Kai-Ulrich Deissner, was appointed as Management Board Member and Chief Financial Officer (CFO), as of 1 August 2014.

## Performed supervision during the business year 2014

In 2014, there were six sessions of the Supervisory Board and three decision makings out-of-session.

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

the By-Laws on the Work of the Supervisory Board of the Company.

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

- T-HT Transformation Program, IP Transformation Migration Plan,
- New trends in technology, key market trends, extension of services portfolio and new business opportunities,
- HR accomplishments and challenges, plans and activities, performance management system, etc.,
- Corporate Governance topics and membership of the Management Board as described above,
- Proposals for the General Assembly,
- International activities of the Company,
- Business Plans for 2015 and onwards,
- Reports and proposals of the Compensation and Nomination Committee on target-setting and target-achievement of the Company and its management and remuneration proposals for MB Members,
- Reports of the Audit Committee and of the Sustainability Committee,
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange,
- Pre-bankruptcy settlement proceeding of Optima Telekom,
- Agreement with Ericsson Nikola Tesla Servisi d.o.o. on outsourcing of construction and maintenance of telecommunications infrastructure services,
- Impacts of the strong competition and a serious and prolonged downturn in the Croatian economy to the results of the Company.

In 2014, the Audit Committee of the Supervisory Board held four regular sessions and one decision making out-of-session, and discussed various topics, in particular:

- 2013 year-end closing of HT Group,
- Quarterly financial results of HT Group,
- External Auditor's Report,
- Risk Reporting for HT Group,
- Reports of the Compliance officer,
- Implementation and effectiveness of internal control over financial reporting,
- Internal Control System optimization,
- Annual audit program 2014 execution,
- Supervision over the realization of audit measures,
- Set up of Annual audit program 2015.

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

The Supervisory Board supported the Management Board in their efforts to protect the interests of HT d.d. in Bosnia and Herzegovina.



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

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

In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2014 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

The Company's auditor, PricewaterhouseCoopers d.o.o. Zagreb, reported on the results of its audit and issued the following confirmation on the audit of the above report:

### Report of Independent Auditors

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

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

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

## Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2014 and the proposal on utilization of profit

The Supervisory Board issued an order to PricewaterhouseCoopers, the Company's auditor, for the examination of the annual financial statements of the Company and the consolidated financial statements of the HT Group for the year 2014.

The Supervisory Board, after considering the audited financial statements of the Company and the consolidated financial statements of the HT Group for the business year 2014, established that

the Company acted in 2014 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements of the Company and the consolidated financial statements of the HT Group for the business year 2014.

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

The Supervisory Board has considered the Report on the status of business operations of the Company and the HT Group for the business year 2014 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied, given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

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

Therefore, the Supervisory Board gave its consent to the proposal of the Management Board on the distribution of the net profit from 2014, and that is, that a part of the net profit in the amount of HRK 940,000,000.00 is to be used to increase the share capital from Company's own capital, a part of the net profit in the amount of HRK 34,700,000.00 is to be allocated to legal reserves, and the remainder of net profit in the amount of HRK 155,969,208.06 is to be allocated to retained earnings.

The Supervisory Board also gave its consent to the proposal of the Management Board that out of the retained earnings from the year 2009, an amount of HRK 573,192,228.00 is to be paid out as dividend to shareholders, amounting to 7.00 HRK per share.

Following the net profit utilization proposal, the Supervisory Board also gave its consent to the following proposals of the Management Board:

- proposal on increase of share capital using the net profit of the Company, by proportionate increase of participation of all issued shares in the Company's share capital and without allocation of new shares;
- proposal for amendments to the Articles of Association of the Company referring to the above listed proposal on increase of share capital,

and they are to be referred to the General Assembly of the Company for decision making as joint proposals by the Management Board and the Supervisory Board.

## Summary

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

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2014.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the financial indicators, it was assessed that targets set for 2014 were reached. Financial outlook was achieved, Revenue and EBITDA fall slowed down compared to previous year, but profitability is still under pressure due to strong regulatory environment, competitive pressure and deteriorating economic situation with decline of markets. However, the Company and whole T-HT Group successfully maintained the leading position in the Croatian telecommunications market across all areas of operation in 2014.

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



Mark Klein  
Chairman of the Supervisory Board

# CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

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

The Company applies the Zagreb Stock Exchange Corporate Governance Code, in effect as of 1 January 2011, and published on the web-site of the ZSE ([www.zse.hr](http://www.zse.hr)) and on the web-site of the Croatian Financial Services Supervisory Agency, HANFA ([www.hanfa.hr](http://www.hanfa.hr)).

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

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

Compensation Guidelines of Deutsche Telekom Group. The Statement on the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The data on the remuneration of the Management Board and the Supervisory Board is disclosed within the Annual Report (Part 6.3.).

## Internal control and risk management

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

The Audit Committee is authorized to:

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

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

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

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

- reviews the application of laws, by-laws and general acts of the Company during audits,
- recommends preventive measures in the area of financial reporting, compliance, business and control in order to eliminate risks and eventual deficiencies that could lead to process ineffectiveness, inefficiency or fraud.

### Significant company shareholders

As at 31 December 2014, significant Company shareholders are as follows:

- 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.).
- The Croatian War Veterans' Fund owns 7.0% of shares.
- Centar za restrukturiranje i prodaju – CERP (Restructuring and Sale Center) of the Republic of Croatia (a legal successor to the Government Asset Management Agency) owns 3.5% of shares of the Company.
- The remaining 38.5% of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

Raiffeisen Mandatory Pension Funds are investors with the largest shareholding among the private and institutional investors. As at 31 December 2014 Raiffeisen Mandatory Pension Funds (category A and category B) owned 8.2% shares of the Company.

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

Mr. Davor Tomašković, President of the Management Board of Hrvatski Telekom d.d., owns 1,069 shares in total; Mrs. Irena Jolić Šimović, Management Board Member of Hrvatski Telekom d.d., owns 45 shares in total; Mrs. Nataša Rapačić, Management Board Member of Hrvatski Telekom d.d., owns 204 shares in total and Mr. Damir Grbavac, Supervisory Board Member of Hrvatski Telekom d.d., owns 69 shares in total.

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

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

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

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

### Authorities of the Management Board members

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

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

The Management Board was authorized by respective General Assembly decisions from 2009, 2010 and 2011 (authorization is valid until 4 May 2016) to acquire Company shares. The Supervisory Board granted its prior approval to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions. The Management Board adopted in 2012 the Treasury share buy-back program for the purpose of realization of the long-term incentive plans for senior management. The Company acquired at the Zagreb Stock Exchange 1,931 Company shares in May 2012 and 2,000 shares in May 2013, holding 3,931 treasury shares in total on the day of issuance of this Statement.

### The composition and functions of the Supervisory Board

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

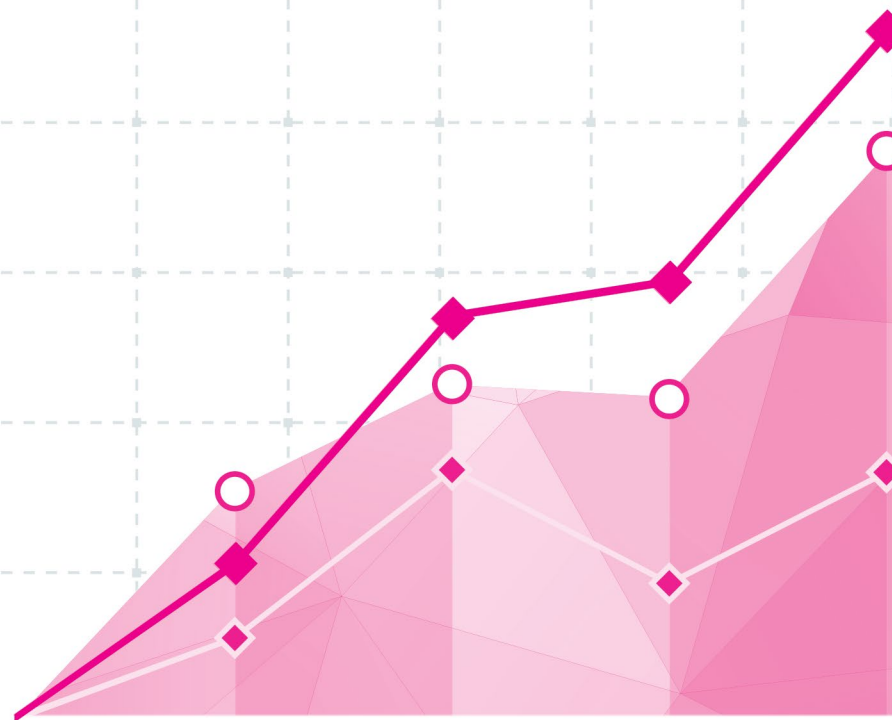
The Supervisory Board established the Compensation and Nomination Committee and the Audit Committee.

In July 2013 the Supervisory Board established the Sustainability Committee for the purpose of overseeing the regular reporting on sustainability. The current Report on sustainability has been published on 8th September 2014. The Sustainability Committee has accomplished its mission and it was dissolved in December 2014.



# ECONOMIC ENVIRONMENT

MACROECONOMIC DEVELOPMENT  
MARKET OVERVIEW  
REGULATORY OVERVIEW





# MACROECONOMIC DEVELOPMENT

## **Good results despite tough macroeconomic situation and continuous competitive pressure**

HT Group keeps leading position in the Croatian telecommunications market across all areas of operation in 2014 as well in spite of competitive pressure, falling consumption and continued tough economic situation in the country.

## **The economy is in decline for 6 consecutive years; Stagnation expected in 2015**

Croatia has been struggling with recession and poor prospects of recovery for the sixth year in a row. Lack of reforms, high unem-

ployment, low competitiveness and high public debt are key drivers for poor economic results for 2014. Croatian GDP is expected to continue its decrease at around -0.7% in 2014, while registered unemployment rate remains high at a yearly 21% average<sup>1</sup>.

Household consumption will remain to be burdened by weaknesses of the labour market and high consumer pessimism. Disposable income reported for October 2014 is almost at the same level as last October (at average HRK 5,532 which is 0.1% higher in real terms)<sup>2</sup>.

Investment activity has not recovered in 2014. Private investments have been halted by unfavourable investment environment, while public investments largely depend on foreign capital and the capability to withdraw EU funds.



# MARKET OVERVIEW

## Mobile telecommunications

### Growing net handset revenues mitigate mobile market decline

Mobile SIM market keeps contracting, reaching estimated penetration rate at 113.2% at the end of 2014 vs. 115.6% penetration rate reported for the end of 2013. All the operators make efforts to increase number of postpaid customers by different tariff bundles with attractive handset/tablet offers. HT keeps stable share of total mobile customers at estimated 46.7% at the end of 2014.

Mobile usage pattern has been changing during 2014 as a result of more smartphones and tablets usage increase. Mobile customers use mobile data access more than ever thanks to increasing "Over the Top" services usage. As a result, total Croatian mobile market minutes of use (MOU) grew at slower rate (1.2% yoy) in first nine months of 2014 and the number of SMSs sent sharply decreased yoy by 8.6% in the same period<sup>1</sup>.

New mobile fee has been introduced on 23 May 2014 by the decision of the Croatian government to increase radiofrequency spectrum fee by three times.

## Fixed-line

### Consolidation of Optima Telekom

Fixed telephony remains highly competitive in Croatia, with 13 operators active in the market<sup>1</sup>.

Fixed to mobile substitution is key market driver in declining fixed-line market. The number of fixed-line minutes of use (MOU) in first nine months of 2014 decreased yoy by 14.6%.

In line with the stipulations from pre-bankruptcy settlement of Optima Telekom and following realisation of Mandatory Convertible Loan instrument, HT and Optima Telekom signed on 30 July 2014 the agreement on conversion of rights into the share capital, resulting with an increase of share capital of Optima Telekom. HT gained additional 10.88% stake and now holds 19.11% of the share capital of the Company.

Optima Telekom is fully consolidated in the HT Group financial statements, due to the fact that HT exercises control over the Company, based on the Agreement with Zagrebačka Banka, major shareholder of the Company.

T-HT successfully maintained its leading position in the fixed line market, reflecting the Group's continuing dedication to high-quality services and improved offers.

## Internet

### Convergent offers and growth in payTV market are key market drivers

The Croatian fixed broadband market grew yoy by 3.1% in Q3 2014 reaching 943,966 fixed broadband connections. DSL is still

the dominant broadband technology. T-HT is the largest fixed broadband operator in Croatia. At the end of 2014 T-HT Group had 614,231 broadband access lines.

T-HT offers fiber optic Ultra MAX packages at the price of the standard MAX packages. The packages are FTTH-based (Fiber to the Home) and offer 10 times higher speed compared to MAX packages for residential customers. This is a step forward in spreading T-HT's fiber optic network that enables the fastest Internet in accordance with the today's pace of life that includes fast and undisturbed consumption of digital content.

The Croatian pay TV market grew yoy by 6.6% in Q3 2014 reaching 728,367 customers<sup>1</sup>. T-HT is the pay-TV market leader thanks to its IPTV service, MAXtv.

## Data

### From traditional data to IP-based services

T-HT keeps its leading position in the data market that is migrating from traditional data services to more cost-effective, IP-based services. Although the data market is relatively small, it represents an important service for business customers.

### Wholesale

Following liberalization of the fixed line market, demand for infrastructure services requested by alternative operators remains high in Q4 2014 with major focus on broadband services. The number of broadband wholesale customers (BSA and Naked BSA) increased to 72,604 at the end of Q4 2014 (increase of 76.0% compared to 2013). Due to high churn and migration to broadband services number of Unbundled Local Loops (ULL) and Wholesale Rental Lines (WLR) is decreasing, which resulted with 167,941 ULL access and 115,555 WLRs at the end of the period.

In January 2014, wholesale prices were amended for the following regulated services: call origination, fixed and mobile call termination. Standard offer for regulated leased lines was amended (price were decreased) as from 1 September 2014.

Also, from October 2014 standard offer for wholesale broadband access (BSA and NBSA) was amended. Main change is related to new model of charging wholesale broadband access resulting with lower wholesale prices.

## ICT

According to the latest IDC Adriatic analysis<sup>2</sup>, slight growth of Croatian ICT market is expected in 2014. Preliminary analysis shows that Hardware segment (PCs, servers, storage, printers, tablets) grew about 6%. Comparing to 2013 slight growth is also expected in IT services and Packaged software segments. The strongest growth is again expected for Cloud services.

<sup>1</sup> Source: Croatian Post and Electronic Communications Agency

<sup>2</sup> Source: IDC Adriatics, January 2015

# REGULATORY OVERVIEW

## Successful concentration of HT and Optima Telekom

In April 2014 concentration of HT and Optima Telekom notification process before Competition Agency was finished. On 19 March 2014 Competition Agency conditionally approved HT and Optima Telekom concentration for the period of maximum 4 years. HT is obliged to act in accordance with various measures whereby independence of Optima's business in accordance with the principle of impartiality is ascertained. After expiration of 3 years HT is obliged to start a process of selling all its shares in Optima.

## HAKOM issues final decision on fixed calls and retail leased lines deregulation

After public consultations and notification of the proposals to the European Commission, on 25 April and 5 November 2014 HAKOM issued final decisions on fixed calls and retail leased lines markets deregulation. With deregulation, all existing regulatory obligations imposed on these markets are annulled for HT (in case of fixed calls also for Iskon). Deregulation of leased lines came into force on 25 July 2014 and deregulation of fixed calls comes into force on 5 February 2015. Market for access to public telephone network remained regulated.

## FTTH wholesale price change leads to more favourable HT retail prices on the market

As of 25 August 2014 HT lowered its retail prices for services provided on HT's already built fiber (FTTH) network. Whereas wholesale bitstream FTTH prices were based on retail minus principle, as of 25 August 2014 HT lowered its bitstream FTTH prices accordingly. At the same time, HAKOM was in the process of defining new wholesale bitstream prices that were cost oriented and calculated based on actual cost. In order to ensure further application of introduced level of lower fiber retail and wholesale prices for existing FTTH network, HT submitted to HAKOM new cost calculation for bitstream FTTH prices for already built FTTH network. After public consultations and notification to the European Commission, on 17 December 2014 HAKOM issued a final decision by which the prices come into force on 1 January 2015.

## New Bylaw on Certificates and Fees for the Rights of Way came into force on 27 December 2014

After public consultations on proposal for the Amendments to the Bylaw on Certificates and Fees for the Rights of Way (Bylaw), on 17 December 2014 HAKOM issued final decision on the Amendments to the Bylaw that came into force on 27 December 2014, and which result in 9% increase of fees that were set in the prior Bylaw which is far less than increase of over 40% HAKOM proposed in the initial Amendments to the Bylaw.

### **Amendments to the ordinance on payment of fees for the license for use of addresses, numbers and radio frequency spectrum**

On 23 May 2014 the Amendments to the Ordinance on payment of fees for the license for use of addresses, numbers and radio frequency spectrum was introduced. The said ordinance introduced 3 times increase of the annual radio frequency fee as an additional measure of fiscal consolidation in 2014 on the revenue side of the State Budget, aimed at decrease of the excessive deficit, in accordance with the conclusion of the Government issued on 17 April 2014.

The proposed increase for Croatian Telecom represents an additional increase of the annual RF spectrum fee in the amount of respectively 138 million HRK. As a response to the increase, HT increased the prices of mobile services by introducing mobile network access fee (as of 1 July for postpaid customers in the amount of 8 HRK + VAT, as of 10 July for prepaid customers 10% of the prepaid voucher denomination).

### **Assignment of new radiofrequency spectrum in 1800 MHz area**

On 17 December 2014 HAKOM issued a decision assigning HT license for usage of radio frequency spectrum for radio frequency block 2x10 MHz in radio frequency area 1869.9-1879.9/1774.9-1784.9 MHz. License for the mentioned radio frequency block was issued for the period from 22 December 2014 until 18 October 2024.

### **New retail prices for 1 Mbit/s of Internet speed as universal services approved**

On 17 December 2014 HAKOM issued a decision approving HT's retail prices for 1 Mbit/s of Internet speed as universal services and the prices came into force on 1 January 2015.

### **Scanning electronic communication infrastructure pilot for 2014 realized**

On 30 April 2014 HAKOM issued a decision imposing on HT the obligation to conduct geodetic scanning and to form geodetic elaborates for certain quantity of electronic communications infrastructure in the area of 8 counties and to enter those into on-line data base as of 1 December 2014. HT complied with the decision in total.

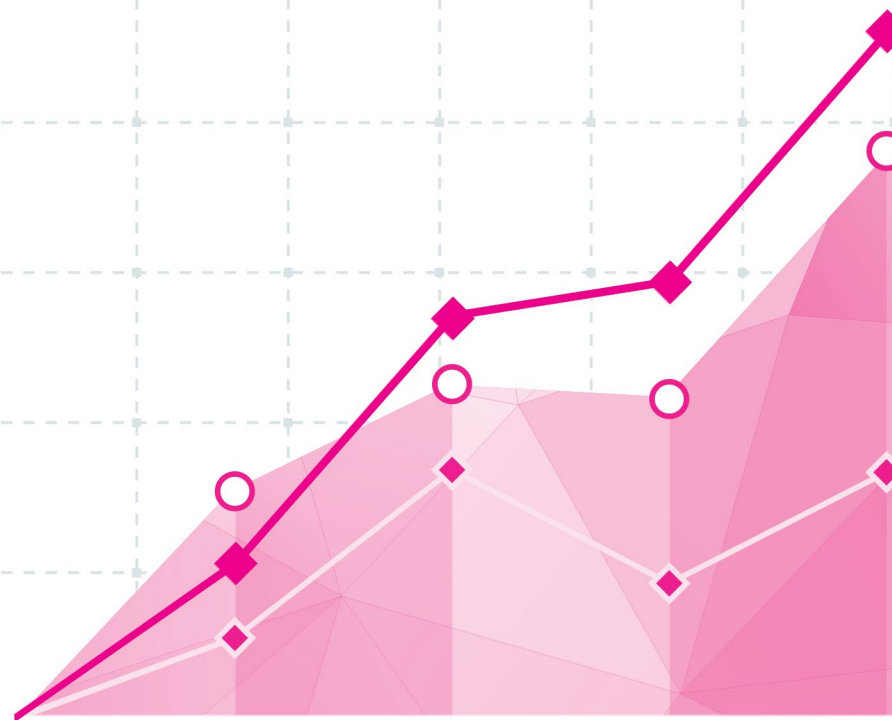
### **Bylaw on protection from electromagnetic fields**

Despite Ministry of Health initiative from April 2014 on introducing stricter limits on allowed levels of electromagnetic fields for 22%, this initiative was not realized, i.e. by new Bylaw on protection from electromagnetic fields that came into force on 18 December 2014 the existing limits were not changed.

The existing limits are already 60% stricter than EU guidelines that make Republic of Croatia one of the 10 EU countries in which the most stringent limits are applied for the purpose of protection of human health.

# BUSINESS REVIEW

OPERATIONAL HIGHLIGHTS





# OPERATIONAL HIGHLIGHTS

## Disclosure

Croatian Competition Agency has conditionally allowed the concentration of HT with Optima Telekom based on the proposal of financial and operational restructuring of Optima Telekom within the pre-bankruptcy settlement procedure. Croatian Competition Agency has determined a set of measures defining the rules of conduct for HT with regard to management and control over Op-

tima Telekom, among which is the implementation of so called "Chinese wall" between Optima Telekom's and HT employees involved in Optima Telekom's business, in relation to all sensitive business information, with the exception of reporting of financial data necessary for consolidation. Respectively only financial statements are consolidated while due to limited access to Optima Telekom's information, non financial KPIs are not consolidated in the Group results.

## Group Mobile KPI's

Key operational data	2013	2014	% of change A14/A13
<b>Mobile customers in 000</b>			
<b>Number of customers</b>	<b>2,303</b>	<b>2,252</b>	<b>-2.2%</b>
- Residential	1,833	1,777	-3.1%
- Business	469	475	1.3%
<b>Number of postpaid customers</b>	<b>1,070</b>	<b>1,099</b>	<b>2.7%</b>
- Residential	634	658	3.7%
- Business	436	441	1.1%
<b>Number of prepaid customers</b>	<b>1,232</b>	<b>1,153</b>	<b>-6.4%</b>
<b>Minutes of use (MOU) per average customer</b>	<b>174</b>	<b>188</b>	<b>8.2%</b>
- Residential	155	171	10.2%
- Business	249	254	2.0%
<b>Blended ARPU (monthly average for the period in HRK)</b>	<b>83</b>	<b>79</b>	<b>-4.3%</b>
- Residential	71	70	-1.4%
- Business	133	117	-11.6%
<b>Blended non-voice ARPU (monthly average for the period in HRK)</b>	<b>31</b>	<b>33</b>	<b>8.8%</b>
<b>SAC per gross add in HRK</b>	<b>104</b>	<b>123</b>	<b>18.2%</b>
<b>Churn rate (%)</b>	<b>3</b>	<b>3</b>	<b>-0.2 p.p.</b>
<b>Penetration (%) <sup>1)</sup></b>	<b>116</b>	<b>113</b>	<b>-2.4 p.p.</b>
<b>Market share of customers (%) <sup>1)</sup></b>	<b>47</b>	<b>47</b>	<b>0.1 p.p.</b>
<b>Data customers (in 000)</b>	<b>1,303</b>	<b>1,409</b>	<b>8.1%</b>
<b>Smartphone customers (%) <sup>2)</sup></b>	<b>32</b>	<b>41</b>	<b>9.2 p.p.</b>
<b>Smartphones sold (%) <sup>3)</sup></b>	<b>60</b>	<b>73</b>	<b>13.0 p.p.</b>

<sup>1)</sup> Source: published VIPnet's quarterly report for 4Q 2013 and Tele2's quarterly report for 4Q 2013. Number of customers for VIPnet and Tele2 for 4Q 2014 are internally estimated.

<sup>2)</sup> Number of customers using a smartphone handsets in total number of mobile customers

<sup>3)</sup> Number of smartphones sold in total number of handsets sold (postpaid only)

## Group Fixed KPI's

Key operational data	2013	2014	% of change A14/A13
<b>Fixed mainlines in 000</b>			
<b>Fixed mainlines - retail <sup>1)</sup></b>	<b>1,133</b>	<b>1,050</b>	<b>-7.3%</b>
- Residential	973	914	-6.1%
- Business	160	136	-15.0%
<b>Fixed mainlines - wholesale (WLR - wholesale line rental)</b>	<b>118</b>	<b>116</b>	<b>-2.2%</b>
- Residential	101	102	1.8%
- Business	18	13	-25.0%
<b>Total traffic (mill. of minutes) <sup>2)</sup></b>	<b>1,967</b>	<b>1,545</b>	<b>-21.4%</b>
- Residential	1,573	1,268	-19.4%
- Business	394	277	-29.7%
<b>ARPA voice per access (monthly average for the period in HRK) <sup>3)</sup></b>	<b>103</b>	<b>94</b>	<b>-8.9%</b>
- Residential	90	84	-6.9%
- Business	184	161	-12.1%
<b>IP mainlines/customers in 000</b>			
<b>Broadband access lines - retail <sup>4)</sup></b>	<b>628</b>	<b>614</b>	<b>-2.3%</b>
- Residential	520	512	-1.7%
- Business	108	102	-5.1%
<b>Broadband access lines - wholesale <sup>5)</sup></b>	<b>41</b>	<b>73</b>	<b>76.0%</b>
- Business	41	73	76.0%
<b>TV customers</b>	<b>391</b>	<b>393</b>	<b>0.7%</b>
- Residential	369	370	0.4%
- Business	22	23	5.0%
<b>thereof IPTV</b>	<b>340</b>	<b>333</b>	<b>-2.0%</b>
- Residential	320	312	-2.3%
- Business	21	21	1.6%
<b>thereof Cable TV</b>	<b>6</b>	<b>6</b>	<b>0.2%</b>
- Residential	6	6	0.2%
- Business	0	0	2.9%
<b>thereof Satellite TV</b>	<b>45</b>	<b>54</b>	<b>21.6%</b>
- Residential	43	52	20.5%
- Business	1	2	52.8%
<b>Fixed-line customers</b>	<b>1</b>	<b>2</b>	<b>9.0%</b>
<b>VPN connection points</b>	<b>5</b>	<b>5</b>	<b>17.1%</b>
<b>Broadband retail ARPA (monthly average for the period in HRK)</b>	<b>127</b>	<b>126</b>	<b>-0.7%</b>
- Residential	126	124	-1.3%
- Business	133	136	2.0%
<b>TV ARPU (monthly average for the period in HRK)</b>	<b>75</b>	<b>80</b>	<b>6.6%</b>
- Residential	75	79	6.4%
- Business	88	97	9.3%
<b>Wholesale customers in 000</b>			
<b>Total data lines</b>	<b>5</b>	<b>5</b>	<b>-4.6%</b>
<b>Wholesale customers in 000</b>			
<b>CPS (Carrier Pre-Selection)</b>	<b>23</b>	<b>14</b>	<b>-37.1%</b>
<b>NP (Number portability) users/number</b>	<b>722</b>	<b>736</b>	<b>2.0%</b>
<b>ULL (Unbundled Local Loop)</b>	<b>173</b>	<b>168</b>	<b>-2.7%</b>

<sup>1)</sup> Includes PSTN, FGSM and old PSTN Voice customers migrated to IP platform; payphones excluded

<sup>2)</sup> Total traffic is generated by fixed retail mainlines as defined in note 1.

<sup>3)</sup> Payphones excluded

<sup>4)</sup> Includes ADSL, FTTH and Naked DSL

<sup>5)</sup> Includes Naked Bitstream + Bitstream

**MAJOR ACHIEVEMENTS IN 2014:**

Undisputed market leadership in all categories:

- Successful value strategy: customers choosing more and more high value for money offers
- Extended portfolio of services to maximize value for customers

Financial outlook achieved, revenue and EBITDA declines slowed compared to 2013, net cash from operating activities improved compared to 2013.

2014 significantly impacted by transformation activities with a number of important projects:

- IP migration – 2014 successfully implemented
- Outsourcing of managed services to Ericsson successfully completed
- Network and IT modernization (network capacities, quality and performance, digital company and online business model transformation, secured resources for INS (Integrated Network Strategy) rollout)
- New, more customer-centric and agile organization created
- New Collective Agreement negotiated in line with market
- Headcount optimization
- New strategic program – Horizont, defined in 2014 with priorities for 2015

Leading through innovation:

- April 2014 - HT launched an innovative payment of e-invoices by credit and debit cards of all domestic and foreign banks
- May 2014 – HT reached highest bitrate in Croatian mobile networks having achieved a data transmission rate 136 megabits per second
- June 2014 - Hrvatski Telekom Data Center Opened. New Data Center offers its customers accommodation, remote monitoring and management of ICT infrastructure, allowing savings in operations and safe and optimal operation of equipment.
- June 2014 - HT and TVbeat first in Europe to introduce IPTV Big Data. The partnership will provide HT with quality and detailed access to statistics of viewership in real time.
- July 2014 - HT has been assigned an important role within the DT Group in establishing technology centers for IPTV and IMS (IP Multimedia Subsystem)
- July 2014 – HT started with the most favourable electricity supply offer for households
- September 2014 - HT started with the offer of fiber optic Ultra MAX packages at the price of the standard MAX packages
- October 2014 - HT in cooperation with ICT partner Etranet Group unveiled the new Mobile Ticket Issuing ICT service
- December 2014 - HT introduced Kupon2go - innovative service enabling discounts by SMS



## Mobile telecommunications

Mobile customer base decreased by 2.2%, from 2,303 thousand customers in 2013 to 2,252 thousand customers in 2014, primarily as a result of aggressive competitors offers and decrease of customers with double SIM cards due to continuing trend of favourable flat and cross net offers.

Number of postpaid customers was 2.7% higher than in 2013 coming from both residential (by 3.7%) and business (by 1.1%) segment. This was a result of overall push of successful and attractive Plan tariffs and handsets as well as mobile internet offers. Offers such as changes in split contract instalment amounts, HOP (Hoću Opet Promijeniti – I want to change it again) and tweaking of Plan tariffs done in Q1 helped to stabilize and gain mobile share. Nevertheless, postpaid customer base was strongly influenced by increased government fee for mobile radio frequency, which has been transferred and charged to the customers via price increase starting from 1 July 2014.

HT has further expanded the coverage of its 4G network based on LTE (Long Term Evolution) technology providing its customers from smaller towns and villages access to the fastest mobile internet available. Also, additional promotion of mobile internet tariffs based on 4G network continued.

Furthermore strengthening innovation image, HT is the first to introduce a service HOP - Hoću opet promijeniti (I Want to Change it Again), enabling customers to change and upgrade their smartphones at favourable prices within contract duration.

As an authorized Apple partner, in Q4 HT launched the sale of iPhone 6 and iPhone 6 Plus within attractive tariffs and options. During the promotional period of Christmas and New Year, HT offered to all new and existing mobile customers regular tariff discounts, the fastest 4G internet on the Croatian market and additional discounts on top-class smartphones and tablets.

Number of prepaid customers was 6.4% lower than in 2013 due to overall decline of prepaid market and strong competition. Ongoing MNP and retention efforts in prepaid segment as well as focusing on additional value for HT prepaid customers are being undertaken to mitigate the ongoing decline.

Simpa offer was further enriched with new internet and 4G options and "Prejaka Mala" option that enables unlimited text messages, 1GB mobile internet and a thousand minutes for cross net calls at a very affordable price (HRK 15 per week). New Simpa campaign 'Omasti brk' was introduced offering all new and existing customers double amount they top up during the first payment in month of at least HRK 50.

In May together with 24sata daily, HT launched 24mobi, the first media virtual network in this part of Europe.

HT launched its new innovative and unique service Kupon2go that enables customers to receive SMS coupons with discounts when they are in the circle of 500 m from HT's partners offering the discounts. The service is free of charge for all HT mobile service customers and number of partners is increasing constantly.

Minutes of usage per average customer in 2014 increased by 8.2% compared to the same period last year due to introduction of flat offers and offering of bundles with high amount of minutes in post-paid and prepaid tariffs what is in line with overall market trends.

Blended ARPU decreased by 4.3% compared to 2013 as a result of very competitive market driven by attractive offers for customers. Additionally, economic situation and EU regulations on roaming prices, which started on 1 July 2013 impacted ARPU development as well.

## Fixed line

By the end of 2014, total fixed access mainlines of 1,050 thousand were 7.3% lower than in 2013. Decline, coming from both segments, was enhanced by the telecommunication market trend of fixed to mobile and IP substitution, regulation and enforced competition but T-HT further continues with proactive and reactive churn prevention offers and activities.

Fixed telephony users generated 1,545 million of minutes in 2014. That was 21.4% lower than in the last year as a result of customer base shrinking and fixed to mobile substitution.

Fixed voice ARPA decreased by 8.9% in comparison to the last year as a result of the general market trends explained above.

## Internet

TV customer base increased by 0.7% from 391 thousand customers in 2013 to 393 thousand customers in 2014 as a result of continuous service and program offer upgrades.

TV ARPU is 6.6% above 2013 driven by premium content (e.g. additional program packages and video on demand) and enriched exclusive TV content with MAX Auto Moto GP (Formula 1) and HBO premium TV packages. Moreover, HT introduced new MAXtv package Pickbox which contains more than 70 hit series and 300 movies and covers the majority of the Hollywood production.

Satellite TV, which is an extension of classical IPTV service, continues to grow with continuous improvements in offer providing more value for the customers and is expected to contribute significantly to the overall TV success, finally resulting in 21.6% more customers than in 2013. It continued with attractive promo offering 50% discount on Basic or Basic Extra package monthly fee for first nine months and 1 month of using additional packages free of charge (HBO & Cinemax package and Sport Plus Package) for activations during promo period.

HT proceeded with convergent and joint mobile/fixed activities push further promoting MAXobitelj, together with Mobile net+ tariffs and MAX3 packages followed by TV campaign. During the Christmas and New Year period MAXobitelj offer was further enhanced bringing more benefits to customers – favourable mobile tariff, more mobile Internet and top-class Samsung tablet.

Broadband retail customer base was 2.3% lower than in the last year reaching 614 thousand, due to stronger competition and aggressive offers in the market.

At the same time broadband retail ARPA was 0.7% below 2013. Residential ARPA was 1.3% lower due to migrations to flat packages and bundle offers, while business ARPA was 2.0% higher. To mitigate the decrease, HT continues with push of MAX2/MAX3 packages accompanied by attractive tablet offers. Furthermore, Ultra MAX fibre optic packages have been started to offer at a price of standard MAX packages.

## Data

The number of data lines was lower by 4.6% compared to 2013. Traditional data lines were decreasing since HT was constantly promoting migration to the IP based products.

## Wholesale

At the end of 2014 there were 168 thousand active ULL lines, what was 2.7% lower in comparison to 2013. ULL market was decreasing due to higher focus of alternative operators to broadband services. Broadband wholesale access lines (DSL and naked DSL lines) were reaching 73 thousand.

Number of WLR lines reached 116 thousand compared to 118 thousand at the end of 2013.

As a consequence of WLR offer, the number of "pure" CPS customers was reduced to the level of 14 thousand at the end of 2014, what is decrease of 37.1% comparing to last year.

At the end of 2014 there were recorded 736 thousand ported numbers from HT's fixed network to other fixed networks which is 2.0% above 2013. Growth in number of ported numbers compared to last year is mainly connected with growth of NBSA services.

Visitor roaming services were major source of international wholesale revenue in 2014. Application of EU regulated prices (starting from 1 July 2013, extended decrease of prices from 1 July 2014) contributed with significant growth of roaming usage by foreign visitors in HT mobile network and by HT retail users abroad. Visi-

tors generated 32.2% more voice originating minutes and 168.6% more data traffic than the last year. At the same time, on cost side, HT's mobile customers generated 49.8% more roaming originated voice traffic in foreign countries and 294.1% more data traffic compared to the 2013.

Total capacity of data and IP services sold to foreign operators increased by 26.8% contributing to wholesale international revenue.

Third significant contributor to wholesale international revenue is termination and transit of international voice traffic. Total international voice traffic volume terminated into HT mobile network increased by 3.3% compared to 2013, while international traffic toward HT fixed network decreased by 18.3%.

## ICT

Continuous growth in all portfolio segments was driven by T-HT Group's strategic focus in the area of Cloud and Managed Solutions.

ICT Marketplace provides now extensive number of services as following: Cloud Call Center, Cloud Legal regulation, Virtual server, Virtual desktop, Cloud Exchange mail and Sharepoint, Cloud Storage, Waste Management, Teambox, Opinator, On-line meeting, Spontania video meeting, Spontania Classroom, SugarCRM and free applications (FileZilla, AbiWord, WinRar, Opera).

HT Group successfully delivered customized ICT solutions in the area of Professional services, IT infrastructure and IP communication.

In cooperation with Končar Group, HT introduced one of the highest categorised Data Center in this part of Europe. Data Center enables storage and remote monitoring of ICT infrastructure resulting with significant savings in operational business and secure optimal equipment usage.



# FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

REVENUE

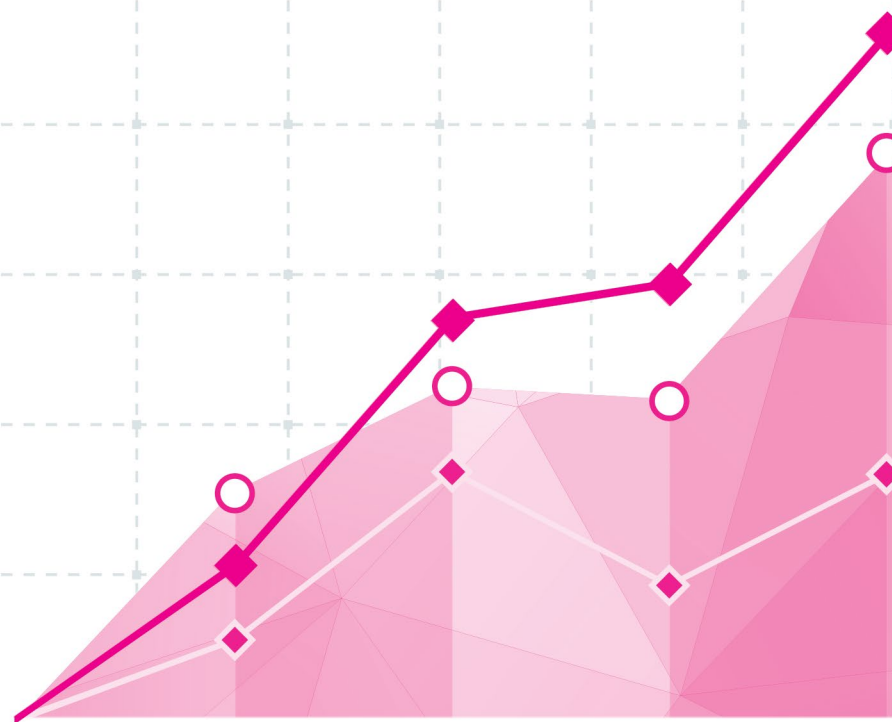
OPERATING EXPENSES

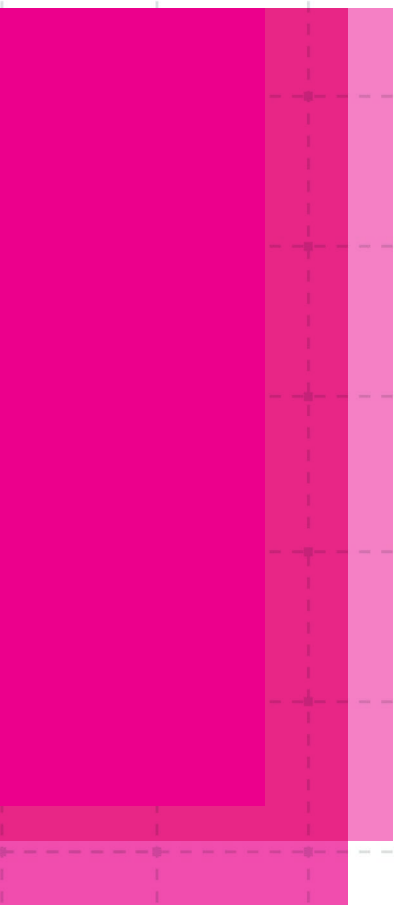
PROFITABILITY

FINANCIAL POSITION

CAPITAL EXPENDITURE

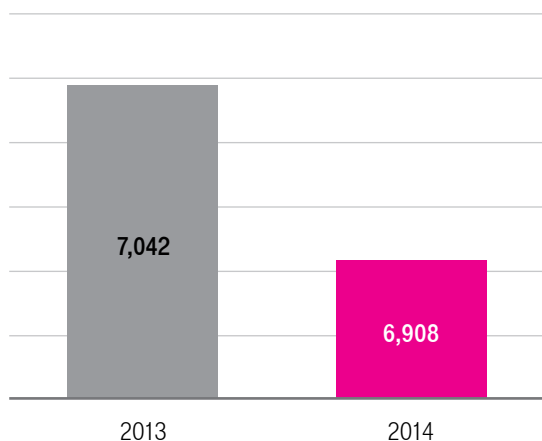
OVERVIEW OF SEGMENT PROFITABILITY





# FINANCIAL HIGHLIGHTS

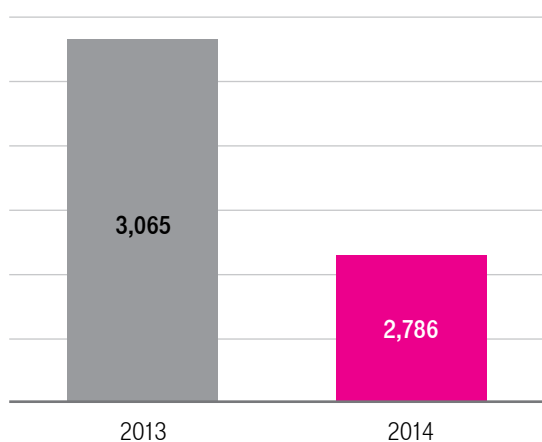
## Revenue in HRK million



### REVENUE

- Revenue fall slowed down compared to 2013 (2014:1.9%; 2013: 6.8%), without Optima Telekom decline would be 4.0%
- Strong regulatory environment, competitive pressure with high number of flat tariff offers, and deteriorating economic situation with decline of markets, had negative influence on revenue
- Mobile revenue recording growth in Q3 and Q4 yoy mainly due to higher handset revenues
- Wholesale revenue decline was additionally driven by change in business model (re-routing of hubbing traffic) and negative effect of Optima consolidation
- However, growth in ICT and IP slowed revenue decline, additionally supported with positive contribution coming from Optima Telekom

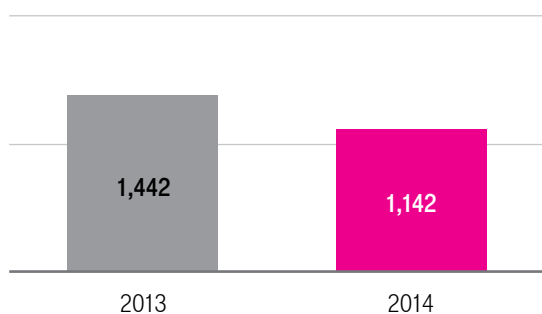
## EBITDA before EI in HRK million



### EBITDA before exceptional items

- EBITDA fall slowed down compared to 2013 (2014: 9.1%; 2013: 12.9%), without Optima Telekom decline would be 10.9%
- Extraordinary items impacted 2014 result by HRK 125 million of consultancy costs for transformation (HRK 33 million), increased bad debt costs due to ongoing recession (HRK 42 million) and missing Real Estate revenue due to recession impact on RE market (HRK 50 million). Without impact of extraordinary items, EBITDA decline rate would be lower, reaching rate of decline of 5.0% (without Optima Telekom decline would be 6.9%).

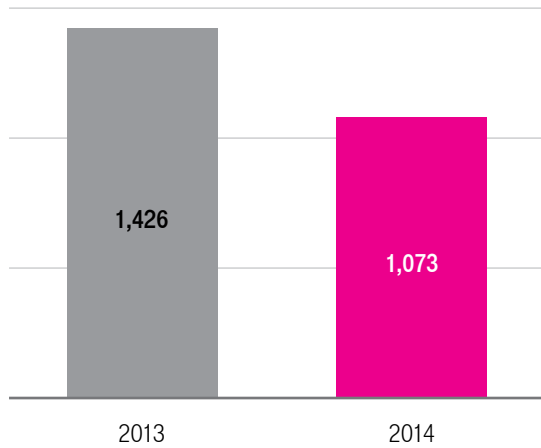
## Net profit after NCI in HRK million



### NET PROFIT after non controlling interests

- Net profit decreased by 20.7% compared to 2013
- This was result of EBITDA contribution, higher exceptional items (transformation related redundancy and consultancy costs) and depreciation, and lower net financial income mainly driven by investment in joint ventures and content capitalization
- Reinvestment of profit continued in 2014 resulted with lower income tax since reinvested profit was deducted from the tax base (2014: HRK 188 million; 2013: HRK 139 million).

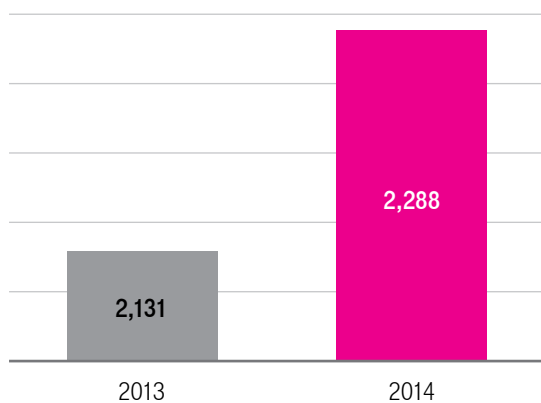
### CAPEX in HRK million



#### CAPEX

- Capex revenue ratio is 15.5% (20.2% in 2013)
- Capex lower mainly due to Spectrum investments in 2013 (HRK 149 million) and absence of one-off real estate investments in 2014 compared to 2013 (HRK 142 million)
- In 2014 T-HT continued to focus on further development of the network infrastructure, increasing broadband access capacity and availability, enabling IP transformation of network and technology basis of the Company to secure business continuity and long term sustainability of T-HT market position.

### Cash flow from operating activities in HRK million



#### Cash flow from operating activities

- Compared to 2013, net cash flow from operating activities increased by 7.4%
- Despite of decrease of profit before tax (EBT), operating working capital management was improved compared to 2013



## T-HT GROUP

in HRK million	2013	2014	% of change A14/A13
Revenue	7,042	6,908	-1.9%
EBITDA before exceptional items	3,065	2,786	-9.1%
Exceptional items	66	152	128.7%
EBITDA after exceptional items	2,998	2,634	-12.1%
EBIT (Operating profit)	1,632	1,223	-25.0%
Net profit after non controlling interests	1,442	1,142	-20.7%
EBITDA margin before exceptional items	43.5%	40.3%	-3.2 p.p.
EBITDA margin after exceptional items	42.6%	38.1%	-4.4 p.p.
EBIT margin	23.2%	17.7%	-5.5 p.p.
Net profit margin	20.5%	16.5%	-3.9 p.p.
<b>Balance Sheet</b>	<b>At 31 Dec 2013</b>	<b>At 31 Dec 2014</b>	<b>% of change A14/A13</b>
Total non current assets	7,729	8,200	6.1%
Total current assets	5,091	5,635	10.7%
<b>TOTAL ASSETS</b>	<b>12,820</b>	<b>13,835</b>	<b>7.9%</b>
Total issued capital and reserves	10,700	11,235	5.0%
Total non current liabilities	276	711	157.2%
Total current liabilities	1,844	1,889	2.4%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12,820</b>	<b>13,835</b>	<b>7.9%</b>
<b>Cash flow</b>	<b>2013</b>	<b>2014</b>	<b>% of change A14/A13</b>
Net cash flow from operating activities	2,131	2,288	7.4%
Net cash flow from investing activities	-1,477	-1,218	17.5%
Net cash flow from financing activities	-1,763	-923	47.6%
<b>Cash and cash equivalents at the end of period</b>	<b>2,039</b>	<b>2,192</b>	<b>7.5%</b>
CAPEX	1,426	1,073	-24.7%
CAPEX / Revenue ratio	20.2%	15.5%	-4.7 p.p.
	<b>At 31 Dec 2013</b>	<b>At 31 Dec 2014</b>	<b>% of change A14/A13</b>
ROE	13.3%	10.4%	-2.9 p.p.
ROCE	14.9%	10.2%	-4.6 p.p.
Number of employees (FTEs)	5,621	4,994	-11.2%
<b>RESIDENTIAL SEGMENT</b>			
in HRK million	2013	2014	% of change A14/A13
Revenue	3,992	3,942	-1.3%
Contribution to EBITDA before EI	2,800	2,687	-4.0%
<b>BUSINESS SEGMENT</b>			
in HRK million	2013	2014	% of change A14/A13
Revenue	3,051	2,745	-10.0%
Contribution to EBITDA before EI	1,677	1,393	-16.9%
<b>NETWORK &amp; SUPPORT FUNCTIONS</b>			
in HRK million	2013	2014	% of change A14/A13
Contribution to EBITDA before EI	-1,413	-1,417	-0.3%
<b>SEGMENT OPTIMA CONSOLIDATED</b>			
in HRK million	2013	2014	% of change A14/A13
Revenue	0	221	-
Contribution to EBITDA before EI	0	123	-

# REVENUE

Total consolidated revenue slowed down decrease comparing to 2013 and have reached rate of decline of 1.9%, with absolute amount of HRK 6,908 million in 2014 compared to HRK 7,042 million in 2013. Decrease was driven by voice revenue (HRK 561 million) and non voice revenue (HRK 17 million), but partially offset by increase in miscellaneous revenue (HRK 275 million), terminal equipment (HRK 94 million) and other service revenue (HRK 74 million).

Such revenue development is an extension of the negative trend from previous years due to deteriorating economic situation and growing competition influenced by high number of flat tariff offers and strict regulation of fixed business.

Additionally, roaming revenues decreased by HRK 25 million and visitor revenues by HRK 36 million mostly impacted by new EU regulation from 1 July 2013.

Contribution of subsidiaries in Group revenue increased and amounted for Iskon HRK 371 million in 2014 (2013: HRK 335 million) and Combis HRK 418 million (2013: HRK 385 million).

Optima Telekom contribution to Group amounted HRK 149 million and was consisted of HRK 221 million of Optima Telekom third party revenue that was presented in the whole amount under Miscellaneous and HRK 73 million of inter-company relations that decreased mainly non voice wholesale revenue.

## Voice revenue

Voice revenue declined by HRK 561 million or 17.2% in comparison to 2013 and it was driven by lower fixed voice revenue (HRK 360 million or 20.4%) and mobile (HRK 201 million or 13.4%). Negative development was visible in both business (HRK 315 million or 26.4%) and residential segment (HRK 246 million or 11.9%).

In 2014 fixed retail voice declined by HRK 223 million or 14.8%. From total deviation, HRK 140 million or 13.0% came from residential and HRK 83 million or 19.4% from business. Decline was a result of retail mainlines drop by 7.3% comparing to 2013, ongoing fixed to mobile substitution trend due to strong mobile offers which are much more attractive than fixed voice propositions and strong regulatory environment. Consequently, number of minutes dropped by 21.4% and ARPA voice per access declined by 8.9%.

Fixed wholesale voice decrease (HRK 137 million or 51.9%) was mainly driven by lower revenue from international voice services, as international hubbing traffic declined driven by change in business model and re-routing of hubbing traffic. International MTR declined from July 2014 as well (January 2014 HRK 0.45, July 2014 HRK 0.32 vs. January 2013 HRK 1.28, July 2013 HRK 0.45). Furthermore, price drop of national termination and origination led to lower national voice revenue.

Mobile voice decline (HRK 201 million or 13.4%) came from both

segments; residential by HRK 106 million or 10.6% and business by HRK 95 million or 19.0%. Negative development was result of MTC revenue decline and drop in prepaid and postpaid retail revenue.

MTC revenue declined by HRK 84 million or 30.4% as a result of price decrease in national mobile to mobile traffic (January 2014 HRK 0.128, January 2013 HRK 0.195, July 2013 HRK 0.193), and in international traffic (January 2014 HRK 0.45, July 2014 HRK 0.32 vs. January 2013 HRK 1.28, July 2013 HRK 0.45).

Prepaid retail revenue decrease of HRK 59 million or 14.2% was caused by lower customer base by 6.4% and lower ARPU. Although introduction of new fees resulted with customer transfer to prepaid, customer base was lower due to strong competition and overall decline of prepaid market. Lower ARPU was an outcome of higher focus on prepaid data packages in 2014, providing affordable data traffic for prepaid customers, and consequently causing higher effect of voice services substitution trend with data.

Postpaid retail revenue decrease of HRK 53 million or 7.3% came from business, while residential contributed positively in comparison to the last year. Business decrease by HRK 68 million or 18.7% was influenced by lower average price of usage in spite of stable minutes of use per average customers. Despite slightly higher customer base by 1.1%, prices were lower due to fierce price competition in saturated mobile market, as well as in roaming due to EU regulation, continuously followed by unfavourable macro-economic environment. All mentioned led to an ARPU decrease.

However, residential postpaid revenue was higher by HRK 14 million or 3.8% due to higher customer base by 3.7% resulted from overall push of attractive Plan tariffs.

## Non voice revenue

Non voice revenue decreased by HRK 17 million or 0.6% in 2014 in comparison to 2013. Negative development was result of lower SMS revenue (HRK 56 million), fixed wholesale revenue (HRK 37 million), visitors revenue (HRK 32 million), ADSL (HRK 21 million), traditional data (HRK 17 million) and other fixed revenue (HRK 5 million).

Trend in wholesale fixed non voice revenue was mostly due to inter-company relations related to Optima Telekom (HRK 55 million). Without this effect, wholesale revenue would be higher by HRK 18 million mostly due to increase in infrastructure revenue due to growth in NBSA and BSA customer base, despite price decrease.

Drop in visitor revenue was a result of lower prices (implementation of EU regulation from 1 July), although usage increased. Lower ADSL revenue was result of lower broadband customer base by 2.3% and ARPA by 0.7% related to customer migrations to flat packages and bundle offers. Decrease in traditional data revenue was driven by migration to IP data and price competition on Ethernet market.

This negative development was partially offset by increase of mobile data revenue (HRK 115 million) and TV (HRK 36 million).

Mobile data growth was a result of continuous substitution trend of traditional voice and SMS services with data, higher number of data traffic included in tariff bundles and increasing share of customers having smartphones. Higher number of customers in Plan tariffs with included multimedia and large data packages contributed to data revenue growth.

TV revenue increase was driven by higher number of TV customers by 0.7% as well as higher TV average revenue per user by 6.6%. This development was a result of additional packages push and efforts for Satellite TV customer's acquisition, especially in rural areas. Also, promotion of MAXobitelj offer continued throughout the whole year supporting TV services push.

From total deviation in non voice revenue, HRK 74 million or 6.7% came from business, while residential was higher by HRK 57 million or 3.3%

### Other service revenue

Increase in other service revenue by HRK 74 million or 13.4%, in comparison to 2013 was driven mainly by higher ICT revenue. ICT revenue growth was mainly coming from specific ICT solutions for key accounts, Cloud and managed services and IT infrastructure and system solutions.

### Terminal equipment

Terminal equipment revenue increased by HRK 94 million or 46.4% in comparison to 2013. From total deviation, HRK 72 million

or 50.5% came from residential, while HRK 22 million or 36.7% from business.

This positive deviation was a result of higher realization in mobile as a result of split contract introduction starting from Q4 2013 (entire handset revenue recognized at the moment of handset sale to the customer). Split contract instalments amounted HRK 132 million and are higher by HRK 116 million than in 2013. This effect was partially offset by lower prepaid handset revenue due to lower number of customers taking handsets. Furthermore, there was different handset and tariff mix in comparison to last year.

### Miscellaneous

Increase in miscellaneous by HRK 275 million or 134.9% in comparison to 2013, was mainly driven by Optima Telekom consolidated segment revenue in amount of HRK 221 million.

Without this effect, increase of HRK 53 million was mostly result of new fee introduced from 1 July, which has been charged to the mobile customers as a result of new fee enforced by government (HRK 65 million) and higher revenue from energy business (HRK 12 million) that has been started in Q4 2013. Decrease of national roaming revenue (HRK 21 million) coming from lower prices had partially offset this positive development.

### Other operating income

Other operating income decreased by HRK 13 million or 9.4% compared to 2013 mainly as a result of lower real estate sales, partially offset by higher income from penalties and fees related to court decision in the collection process.

# OPERATING EXPENSES

Total consolidated operating expenses increased by HRK 216 million or 5.2% to HRK 4,397 million in 2014.

This increase was particularly due to negative development of other expenses (HRK 113 million), material expenses (HRK 49 million), write down of assets (HRK 34 million), employee benefits expenses (HRK 14 million) and capitalized work performed by the Group (HRK 7 million).

Excluding redundancy costs (2014: HRK 138 million vs. 2013: HRK 66 million), transformation consultancy costs treated as exceptional items (2014: HRK 14 million) and Optima Telekom contribution of HRK 103 million, operating expenses increased by HRK 28 million or 0.7% to HRK 4,142 million in 2014.

## Material expenses

Material expenses increased from HRK 1,898 million in 2013 to HRK 1,947 million in 2014 as a result of higher merchandise, material and energy expenses (HRK 157 million or 15.5%) partially compensated by lower services expenses (HRK 108 million or 12.1%).

Merchandise costs increase (HRK 157 million) was mainly driven by higher mobile merchandise costs (HRK 111 million) and ICT development (HRK 69 million), while fixed merchandise was lower (HRK 23 million) compared to the last year. Mobile merchandise cost increase was primarily driven by residential segment (HRK 91 million), and business segment as well (HRK 20 million), due to higher number of postpaid acquired and retained customers taking handsets as well as due to higher share of high value handsets sold and due to introduced split contract model. ICT merchandise increase was following revenue development. Decrease in fixed segment, driven by residential (HRK 26 million) slightly compensated with increase in business (HRK 3 million), was a result of lower customer acquisition and retention related merchandise cost due to reduced campaigns with gadget offer.

Increase of energy sales expenses (HRK 17 million) related to energy business that has been started in Q4 2013 was compensated by decrease of energy costs (HRK 11 million) mainly as a result of savings made by shutting down of exchanges in PSTN migration, and by decrease of material costs (HRK 6 million).

Decrease in services expenses mainly came from lower telecommunication costs and copyright fees.

International telecommunication cost declined (HRK 79 million) mainly due to lower international hubbing traffic and lower average roaming unit cost. Negative effect of lower average roaming unit cost was partially offset by higher usage. From total deviation, HRK 93 million came from business and HRK 8 million from residential segment, but it was partially offset by higher costs coming from Optima Telekom consolidated segment in amount of HRK 22 million. Domestic telecommunication cost declined (HRK 36 million), main-

ly due to lower fixed (FTR) and mobile (MTR) unitary termination price. From total deviation, HRK 28 million came from residential and HRK 28 million from business segment, what was partially offset by higher costs coming from Optima Telekom consolidated segment in amount of HRK 20 million.

Lower copyright fees (HRK 5 million), were caused by higher share of capitalized content rights contracts. However, there was a higher number of TV customers and number of additional TV packages, especially sport and HBO packages. From total deviation, HRK 8 million came from residential and HRK 2 million from business segment, what was partially offset by higher costs coming from Optima Telekom consolidated segment in amount of HRK 5 million.

Excluding Optima Telekom contribution of HRK 48 million, material expenses increased by HRK 1 million.

## Employee benefits expenses

Total employee benefits expenses increased by HRK 14 million or 1.3% to HRK 1,128 million in 2014.

Excluding redundancy costs (2014: HRK 138 million vs. 2013: HRK 66 million) and Optima Telekom contribution of HRK 29 million, employee benefits expenses decreased by HRK 86 million. This was mainly due to lower cost for gross wages because of lower number of FTEs, and lower rights from new Collective agreement valid from 1 July 2014, but partially offset by higher contribution on salaries coming from changed contribution law as of 1 April 2014.

Number of FTE decreased from 5,621 in 2013 to 4,994 in 2014 mainly due to transfer of 631 FTEs from HT's technology unit for the construction and maintenance to Ericsson Nikola Tesla from 1 September 2014. Besides that, decrease in number of FTEs was result of Headcount Restructuring program and reorganization. This impact was partially compensated by new employments coming from company transformation. Optima Telekom contributed with 406 FTEs.

## Other expenses

Other expenses increased by HRK 113 million or 9.4% to HRK 1,317 million in 2014.

Negative effect of higher consultancy costs (HRK 48 million), maintenance (HRK 40 million), licences (HRK 29 million), external employment (HRK 20 million) and advertising (HRK 9 million) was partially offset by lower other expenses (HRK 30 million) and postal charges (HRK 4 million).

Consultancy cost increased mainly due to external consultancy engagement in transformation and reorganisation.

Increase in maintenance was mostly driven by higher number of fault repair activities due to bad weather conditions. Outsourcing of HT's technology unit for the construction and maintenance additionally resulted with increase of HRK 25 million. In addition, maintenance costs from Optima Telekom (HRK 10 million) also contributed to the cost increase.

Increase in licences was mostly due to higher governmental spectrum fee partially offset with lower HAKOM fees for radio relay links and T Brand licenses.

Increase of temporary employment mainly came from push of direct sales channels as well as from support on remote fault repairs and engagements of agency technicians in network part.

Advertising cost increase was result of intensive promotional year-end efforts taken to acquire and retain customers.

Decrease of other expenses is mainly driven by reversal of Optima Telekom's discounting effect of receivables made last year since in H1 2014 Optima Telekom's receivables were converted into investment and lower wholesale penalties.

Decrease in postal charges is mainly result of e-bills push and lower negotiated unit price with postal services provider.

Excluding transformation consultancy costs treated as exceptional items (2014: HRK 14 million) and Optima Telekom contribution of HRK 23 million, other expenses increased by HRK 75 million.

### **Write down of assets**

The assets write down increased by HRK 34 million or 54.8% to HRK 95 million in 2014. This increase was mainly driven by value adjustment of receivables in mobile residential segment as a result of higher intensity of court claims and as a result of adjusted receivables related to wholesale operators.

### **Depreciation and amortization**

Depreciation and amortization were higher than in 2013 by HRK 44 million or 3.3%. Optima Telekom consolidation effect amounted to HRK 52 million.

# PROFITABILITY

## EBITDA before exceptional items

EBITDA before exceptional items slowed decline compared to 2013 and decreased by HRK 278 million or 9.1% to HRK 2,786 million in 2014. Both lower revenue (HRK 135 million or 1.9%) and other operating income (HRK 13 million or 9.4%), and higher operating expenses (HRK 131 million or 3.2%) negatively contributed to EBITDA development.

Optima Telekom contribution to Group EBITDA was HRK 57 million and was consisted of HRK 123 million of Optima Telekom third party contribution and HRK 66 million of inter-company relations.

## Net profit after non controlling interests

Consolidated net profit after non controlling interests decreased by 20.7% to HRK 1,142 million in 2014 from HRK 1,442 million in 2013. This decrease was primarily a result of EBITDA development

additionally influenced by higher exceptional items (transformation related redundancy and consultancy costs by HRK 86 million) and depreciation and amortization (HRK 44 million), as well as lower net financial income (HRK 36 million), partially compensated by lower taxation (HRK 140 million) and contribution of non-controlling interests (HRK 4 million).

Negative contribution of net financial income by HRK 36 million was result of lower interest income from cash at bank and higher financial expenses primarily driven by effect from content capitalization and lower income from investment in joint ventures. Optima negatively contributed with HRK 13 million.

Optima Telekom contributed to Group net profit by loss of HRK 1 million.

The amount of profit reinvested in HT Inc was deducted from the tax base and this positively impacted 2014 net profit for HRK 188 million.

# FINANCIAL POSITION

## Balance sheet

Total value of assets increased by 7.9% in comparison to last year mainly due to consolidation of Optima Telekom. Without effect of Optima consolidation, asset would be higher than the last year by 2.6%.

Total issued capital and reserves increased from HRK 10,700 million at 31 December 2013 to HRK 11,235 million at 31 December 2014 as a result of comprehensive income for 2014 in amount of HRK 1,142 million and dividend payment in May 2014 in the amount of HRK 736 million. Increase in ordinary share capital by HRK 694 million was due to partial reinvestment of profit for 2013.

Total non-current liabilities increased by HRK 435 million or 157.2% mainly due to consolidation of Optima Telekom coming from reprogrammed liabilities in prebankruptcy settlement. Without this effect, there would be a decrease in non-current liabilities by 22.6% mostly due to lower provisions.

Total current liabilities increased by HRK 45 million to HRK 1,889

million at 31 December 2014 mainly due to redundancy provision.

## Cash flow

Cash flow from operating activities is T-HT Group's principal source of funds enabling the Company to finance capital investments and dividend distributions.

Compared to 2013, net cash flow from operating activities increased by 7.4%. Despite of decrease of profit before tax (EBT), operating working capital management was improved compared to 2013.

Net cash flow from investing activities increased by 17.5% mainly as a result of significantly higher maturity of financial assets investment in 2014.

Net cash flow from financing activities increased by HRK 840 million or 47.6% mainly due to lower dividend payment in 2014 in the amount of HRK 736 million (lower dividend was due to partial reinvestment of earned profit from 2013).

# CAPITAL EXPENDITURE

Capital expenditure realization of HRK 1,073 million in 2014 was lower by HRK 353 million or 24.7% in 2013 mainly due to Spectrum investments in 2013 and absence of one-off real estate investments in 2014.

In 2014, T-HT invested with the focus on further development of the network infrastructure, increasing broadband access capacity and availability, enabling IP transformation of network and technology basis of the Company to secure business continuity and long-term sustainability of T-HT market position.

T-HT continues with strategic project Mobile broadband deployment enabling outperformance in comparison to competition in mobile broadband with respect to coverage, capacity, scalability, performance of network and continuation of single RAN project. Modernization of radio access network project is finished, 99.7% of total mobile access locations is modernized. Temporary diesel power generators have been replaced by permanent power lines on 6 mobile sites, which represents significant operational expenditure savings. Coverage and access capacity of mobile broadband

increased by realization of 41 new 2G, 128 new 3G and 46 new 4G services.

The implementation of the all-IP service platform is a strategic priority for the business transformation in the period from 2012 to 2015. Strategic project PSTN migration enables fixed voice service continuity with efficient transformation from obsolete TDM technology to IP. By the end of 2014, in total 882,609 customers are migrated and 46 local exchanges are switched off.

MPLS modernization project is ongoing enabling new IP Broadband Services provisioning and higher network quality / performance. In HT Metro Ethernet Network, 18 new 10Gbps IP routers were installed and in total 17 are migrated.

IT activities and accomplishments were focused to technology realization of 'digital company' business model and 'on-line' business model transformation, convergence of the business portfolio and consolidation of information systems and business support as well as integration of infrastructure of HT.



# OVERVIEW OF SEGMENT PROFITABILITY

## Disclosure

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

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

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

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

Companies in the T-HT's full ownership Iskon, Combis, KDS and E-Tours are part of above mentioned segments, following the same structure as Mother Company.

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

In the financial reports, the Group's segments are reported on contribution to EBITDA before EI level. The revenues and expenses of the segments include primary results.

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

## Residential segment

in HRK million	2013	2014	% of change A14/A13
Voice revenue	2,070	1,823	-11.9%
Non voice revenue	1,719	1,776	3.3%
Other service revenue	2	6	195.0%
Terminal equipment	142	214	50.5%
Miscellaneous	59	122	107.8%
<b>Revenue <sup>1)</sup></b>	<b>3,992</b>	<b>3,942</b>	<b>-1.3%</b>
<b>Operating expenses <sup>2)</sup></b>	<b>1,192</b>	<b>1,254</b>	<b>5.3%</b>
<b>Contribution to EBITDA before EI</b>	<b>2,800</b>	<b>2,687</b>	<b>-4.0%</b>

<sup>1)</sup> Due to new classification of revenue applied in planning periods based on Functional profit and loss account, 2013 slightly changed in structure

<sup>2)</sup> Operating expenses per segment for 2013 changed in comparison to originally reported in 2013 due to organisational changes in 2014

## Business segment

in HRK million	2013	2014	% of change A14/A13
Voice revenue	1,191	876	-26.4%
Non voice revenue	1,102	1,028	-6.7%
Other service revenue	551	622	12.8%
Terminal equipment	61	83	36.7%
Miscellaneous	145	135	-6.8%
<b>Revenue <sup>1)</sup></b>	<b>3,051</b>	<b>2,745</b>	<b>-10.0%</b>
<b>Operating expenses <sup>2)</sup></b>	<b>1,373</b>	<b>1,352</b>	<b>-1.6%</b>
<b>Contribution to EBITDA before EI</b>	<b>1,677</b>	<b>1,393</b>	<b>-16.9%</b>

<sup>1)</sup> Due to new classification of revenue applied in planning periods based on Functional profit and loss account, 2013 slightly changed in structure

<sup>2)</sup> Operating expenses per segment for 2013 changed in comparison to originally reported in 2013 due to organisational changes in 2014

## Network and support functions

in HRK million	2013	2014	% of change A14/A13
<b>Other operating income</b>	<b>137</b>	<b>113</b>	<b>-17.6%</b>
<b>Operating expenses <sup>1)</sup></b>	<b>1,550</b>	<b>1,530</b>	<b>-1.3%</b>
<b>Contribution to EBITDA before EI</b>	<b>-1,413</b>	<b>-1,417</b>	<b>-0.3%</b>

<sup>1)</sup> Operating expenses per segment for 2013 changed in comparison to originally reported in 2013 due to organisational changes in 2014

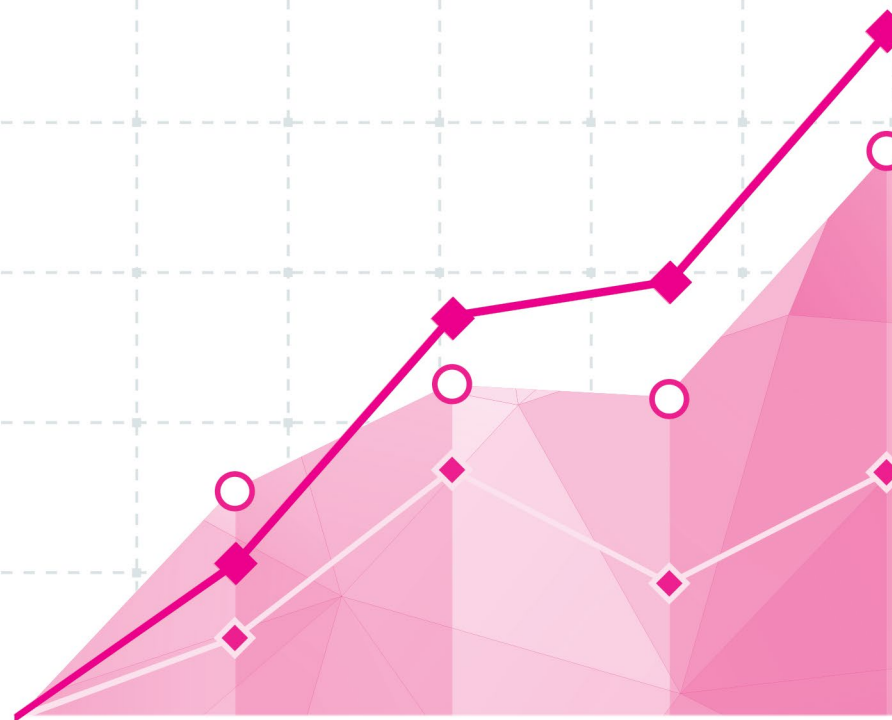
## Segment Optima consolidated

in HRK million	2013	2014	% of change A14/A13
Miscellaneous		221	-
<b>Revenue</b>	<b>0</b>	<b>221</b>	<b>-</b>
<b>Other operating income</b>		<b>11</b>	<b>-</b>
<b>Operating expenses</b>		<b>110</b>	<b>-</b>
<b>Contribution to EBITDA before EI</b>	<b>0</b>	<b>123</b>	<b>-</b>

## Segment PL bridge to HT Group EBITDA

in HRK million	2013	2014	% of change A14/A13
Segment Result (Contribution to EBITDA)			
Residential Segment	2,800	2,687	-4.0%
Business Segment	1,677	1,393	-16.9%
Network and Support Functions	-1,413	-1,417	-0.3%
Segment Optima consolidated	0	123	-
<b>Total Contribution to EBITDA before EI of the Segments</b>	<b>3,065</b>	<b>2,786</b>	<b>-9.1%</b>
Special influences	66	152	128.7%
<b>Total EBITDA</b>	<b>2,998</b>	<b>2,634</b>	<b>-12.1%</b>

# CORPORATE RESPONSIBILITY





# CORPORATE RESPONSIBILITY

Sustainability of business operations, through a responsible approach to the society in which we operate, is an integral part of T-HT because the company's reputation is dependent on far more than just the quality, price, or particular features of its products and services. Of equal importance are company's attitudes towards its employees, customers, suppliers and investors, as well as towards the environment and the society in which it operates.

Therefore, we have defined the key corporate responsibility strategy areas - Connected life and work, Connect the Unconnected, and Low carbon society.

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

The Group believes in the importance of open and transparent communication with all its stakeholders. Transparent communication with investors is of particular importance in order to articulate the Group's current status and potential, and to enable investors to reach a fair valuation of the Company.

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

T-HT's Code of Conduct sets clear standards of business conduct and is based on the highest ethical principles. The Code is based on the Company's Guiding Principles and desirable behaviours – in particular: "Respect and Integrity Guide Our Behaviour". The bulk of the document deals with the relationship with customers, partners and suppliers, and special attention is paid to managing information and conflicts of interest.

In 2014, T-HT was included, for the sixth consecutive year, in the Vienna Stock Exchange's CEERIUS Sustainability Index for 2015. This index rates shares in the leading CEE region companies with respect to social and environmental quality, as well as economic performance.

In May 2014, T-HT set up an Integrated Environment, Health and Security Management System and adopted a new Policy. In line with the requirements of the above mentioned standards, in June 2014, a central internal audit of the T-HT's integrated system as part of the DTAG Integrated Management System was performed, which confirmed integration of environmental care into all relevant work processes and high awareness of all employees about the importance of environmental protection.

## Responsibility towards the society

### Donations and sponsorships

A common characteristic of all T-HT's donation activities is the orientation towards the projects of lasting value that incorporate

technology, education, charity and ecology. Most projects are continuous, thereby increasing their efficacy and leading to better and stronger relationships between the Company and beneficiaries. Among the most prominent donation projects is the annual competition "Zajedno smo jači" (Together We Are Stronger), through which funds were donated for projects of special importance to the community, and charity action support through 060 numbers.

T-HT has a key role in the development of the knowledge society by supporting gatherings of scientific experts such as WinDays, the MIPRO Conference, the Combis Conference, the Cisco Conference and other events related to the telecommunications sector.

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

In 2014, the Company selected scholarship recipients among the top candidates from the Faculty of Electrical Engineering and Computing, who were made a part of our Company's life already during their studies. Each scholarship recipient also gets a mentor who will assist them in the preparation of their diploma thesis.

The Company supports another scholarship scheme named "Korak u život" (Step into Life), organised by the Rotary Club Zagreb Kaptol. In 2014, T-HT awarded scholarships to four students without adequate parental support.

Partnership with the Museum of Contemporary Art continued in 2014 with the seventh consecutive annual award T-HTnagrada@msu.hr for the best Croatian contemporary work of art, which is a recognisable and valuable art project that significantly contributes not only to the Museum's collection, but also to the development of Croatian contemporary art.

T-HT continued its tradition of sponsoring Croatian national theatres in Osijek, Varaždin and the Gavella City Drama Theatre in Zagreb.

In 2014, T-HT provided sponsorship support to six film festivals: ZagrebDox, Pula Film Festival, Motovun Film Festival, Vukovar Film Festival, MAXtv filmomanija and Zagreb Film Festival.

For the seventh consecutive year, tportal ran a competition for the roman@tportal.hr literary prize worth HRK 50,000. The author Kristian Novak won the grand prize for his novel „Črna mati zemla”.

The fourth edition of the Telekom Electronic Beats Festival Zagreb 2014 attracted more than 2,000 visitors, featuring performances of the hottest performers of the present-day electronic music, such as Fritz Kalkbrenner (live), Efterklang, MSMR, Dena and DJ Itch.

Hrvatski Telekom was the general sponsor of the first tech show in Croatia, the Bug Future Show 2014, which comprised lectures by IT experts and guests from abroad, as well as panel discussions, interviews,

prize competitions for the audience and video screenings.

We supported the biggest regional startup competition, the Idea Knockout, and let one team have the opportunity to be included in the hub:raum investment programme. The fifteen teams participating in the Idea Knockout competed for a valuable first prize – a trip for two team members to Las Vegas, to the biggest international new technology show, CES 2015, including an exhibition stand at the show.

The cooperation between MAXtv and the Croatian Premier Football League, the MAXtv Premier League, continued in 2014, bringing top flight production standards and broadcasting Croatian football matches on new interactive platforms. In 2014, T-HT also sponsored the Croatian Premier Football League and the Croatian National Team prior to and during the FIFA World Cup.

T-HT is a long-standing sponsor of the Youth Sports Games, the largest amateur sports event in Croatia. In 2014, the Games saw the participation of more than 80,000 competitors aged between 7 and 18 years, who competed in about 10 sports and in more than 20 cities.

## Responsibility towards employees

The focus on internal knowledge sharing as a key factor in employee development was maintained in 2014 as well, so that implementation of creative development programmes continued successfully, such as HT Academy, T-Trainers, Training according To Your Choice, Quarterly Team Workshop, e-learning and RasT.

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

The best employees always give their best, and we wish to show them that we recognise their work and efforts and that we appreciate their contribution to the Company. This is why each quarter, through Thank you! for the extra mile, we are rewarding those employees who have particularly excelled at their work.

The Company provides numerous benefits to its employees – both financial and non-financial, and as part of the employee health care, regular annual medical check-ups for all employees and vaccinations for employees who may come in contact with ticks.

In 2014, our managers participated in the on-going "Closer to the Customer" programme, one of the key programmes aimed at developing a customer-centric culture across all segments of the Company.

Leadership Training was conducted as well, providing management and motivation skills to senior management employees in order to make sure that in a time when restructuring and new organisation need to be communicated in an affirmative manner to the other employees in the Company, the leadership has strong tools available to communicate the new strategies.

The opinions of our employees are important to us, and we regularly conduct surveys about job satisfaction, understanding and embracing change, strategy awareness, satisfaction with professional development, employees' commitment.

The Company has demonstrated high levels of sensitivity and responsibility towards all employees who have left the Company. In addition to severance payments exceeding the amounts prescribed by law, employees can access contents and services from the Support Plus Programme. In 2014, costs of re-qualification or certification of departing employees were borne by the Company in order to increase the employees' employability on the labour market.

We are proud of our commitment to respect diversity and promote equal opportunities. A high proportion of female employees holding managerial positions, which by far exceeds the Croatian average, has been our tradition for many years.

## Responsibility towards customers

Our customers are offered support on a 24/7/365 basis by phone, e-mail, postal mail, fax and via social media. Social media represent one of the most effective and immediate communication channels.

T-HT continuously monitors customer satisfaction, employing the TRI\*M methodology and customer comments within the NG ICCA for the call centre, shops, web and technicians. The call centre and shop touch points play a key role in maintaining good relations with our customers.

T-HT tailors its services to take into account the varying needs of its customers, as shown by the Company's special discounts, shops accessible to disabled persons, special packages for customers on low incomes, services for young people and discounts granted to Croatian Homeland War disabled veterans. T-HT also provides parental protection, handset insurance and various billing options including WebBill, voice billing and e-billing.

Availability of the fast Internet is a strategic direction of Hrvatski Telekom, which increases its fast 3G and 4G network coverage on a daily basis and offers the largest availability of both networks in Croatia. In 2014, Hrvatski Telekom additionally expanded the coverage of its 4G network.

Hrvatski Telekom has transformed its traditional PSTN telephone network into a contemporary IMS platform. In 2014, a total of 35 local switching centres with their remote subscriber stages were shut down, and more than 400,000 customers were migrated to the new platform. A number of 46 shut down local switching centres was reached with a total of 882,609 customers in Croatia that were migrated to IP technology.

In 2014, HT expanded its offer of the standard ICT services, with an emphasis being put on further development of Cloud services (Cloud Storage, Office 365, Cloud Network Protection, Cloud Supervision of Mobile Phones) that customers are able to buy through "classic" HT sales channels and the virtual store of business applications and ICT services – ICT Marketplace.

After the successful development of the ICT platform based on customer cases of integration of electric vehicles into the traffic and energy ecosystem by means of the advanced charging infrastructure, in the last implementation year of the Mobincity project, the platform was tested in real conditions on pilot locations in Ljubljana and Rome. The test results showed that the technology was ready

and that the entire ecosystem of the charging stations, together with the relevant back-end ICT architecture was mature for the upcoming commercialisation.

Kupon2go is a new and unique service that selects and proposes offers of partner companies and sends an SMS discount coupon to the user's mobile phone at the moment when the user is in the vicinity of the partner location.

### Responsibility towards the suppliers

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

### Responsibility towards the environment

T-HT strives to encourage a strong understanding of environmental issues amongst its staff. The majority of employees undertook a course on environmental protection, and new employees must attend an initial course on environment protection as a part of introducing them to their jobs.

T-HT's car fleet totals approximately 180 vehicles, which can run on LPG fuel. LPG is considered to be the most environmentally friendly motor fuel and, by means of different internal initiatives and measures, T-HT is constantly encouraging its employees to use LPG more in its vehicles.

Within the objective to transform its operations through automation, digitalisation and simplification of business processes, the paper consumption in T-HT was increased by only 3% in 2014, in comparison to 2013, while the quantity of the disposed and recycled paper waste amounted to 128 tons, which was approximately 25% less compared to 2013.

Alongside the regular collection of used devices in T-Centres, in 2014, T-HT continued the buy-back programme for old mobile devices called "Replace and Save" ("Zamijeni i uštedi") under which customers can receive discounts when buying a new device.

As the only telecommunications company in Croatia certified under the ISO 14001 Environmental Management Standard, T-HT is focused on the implementation of green technologies in telecommunications.

The energy efficiency at the corporate level continued in 2014. The absolute amount of electricity consumption in 2014 decreased in comparison to 2013. The key initiatives in this regard include efficient air conditioning and power supply systems, modernisation of telecommunications equipment, optimisation of the real estate portfolio and refurbishment of property owned by T-HT according to energy efficiency principles, more extensive use of IT resources along with a range of other activities that contribute to more efficient energy consumption. Furthermore, 14 wind-solar systems produced electricity for T-HT's mobile network base stations in 2014.

In 2014, T-HT continued to conduct energy audits and energy certifications of its buildings to assist with improving the energy efficiency of its real estate portfolio. In total, 21 technology and office buildings were certified in 2014, with an average energy class D, which is satisfactory with respect to the year and type of construction, primarily due to the quality of regular maintenance and materials and equipment installed.

### Corporate responsibility in the companies owned by T-HT

#### Combis

Combis strives to spread its social responsibility towards the community through all aspects of the socially responsible corporate behaviour by putting the emphasis on the support to a human aspect of business. For years, Combis has supported education, health and culture. Thus, in 2014, by means of donations and sponsorships, Combis provided support to various projects in different fields, from humanitarian aid, improvement and development of education, to supporting urban culture and exchange of knowledge through Croatian and regional ICT conferences.

We provided financial support to the American non-profit "Founda-



tion for the Global Compact", the Roman Catholic Archdiocese of Vrhbosna, and the Fifth Grammar School in Zagreb for the participation in the international IT competition held in the USA.

In the first half of the year, as a traditional sponsor of the urban culture, Combis supported the 17th international comic book festival "Comic Book Show" ("Crtani romani šou") organised by "CRŠ" Association from Zagreb. In the second half of the year, Combis decided to support the work of RC Drift association, the first organisation in Croatia dedicated to RC drift.

Traditionally, Combis supports ICT conferences, both in Croatia and in the region. Therefore, in 2014, Combis sponsored Cisco Connect SEE, Microsoft WinDays Conference, Oracle Days, Business Connect IBM Forum and Smart Day in Croatia, Telco Cloud World Forum in Germany, IDC conferences in Bulgaria, Romania and Ukraine, Oracle User Group Serbia Conference (SrOUG) in Serbia and Oracle Day and MS Network BiH conferences held in Bosnia and Herzegovina.

High expectations were justified by the 8th Combis conference held in Šibenik, which gathered more than 300 participants from Croatia and the region. The theme of the conference was: "Explore the digital world = Create a new business reality".

The importance of ICT implementation was presented at numerous lectures, where case studies were in the very focus of the participants and were pointed out as a valuable and important factor of the conference. During the two conference days, the participants had the opportunity to hear 28 lectures, and the conference was closed by a panel discussion on the latest trends in the development of data storage devices.

### Iskon

In 2014, Iskon Internet provided financial and technical support to numerous cultural initiatives in Croatia, covering the segment of music, design and creativity. All supported projects were gathered under the sponsorship platform "Iskon is in Love with Good Projects" ("Iskonovci zaljubljeni u dobre projekte") and shared the principal values of Iskon: innovation, courage, sincerity and diversity.

In May, Iskon provided support to the "Window of Contemporary Sound" ("Izlog suvremenog zvuka") organised by Music Salon of the Change Culture, which was a four-day event focused on the

contemporary music. Then, in June, Iskon sponsored the D Day, an event aimed at presenting young designers from the region and connecting them with potential collaborators and clients, and Cest is d'Best, a street art festival. The support was also provided to Pedalfest organised by the Cyclist Union ("Sindikata biciklista") with the aim of promoting the bicycle as an optimum means of transportation in the cities for all generations. During Pedalfest, an Iskon-inspired bicycle was produced that was sold in a charity auction.

At the same time, Iskon became one of the first Croatian companies to have introduced bicycles to its fleet as an official means of transportation.

As a general sponsor of the Super Ear ("SuperUho") festival, Iskon continued to cooperate with the most recognised Croatian alternative music brand Thirsty Ear ("Žedno uho"). The first edition of the Super Ear festival was held in Šibenik, where, during five festival days, almost ten thousand visitors gathered at the concerts of The National, held in the newly renovated St. Michael Castle, and in daily and evening programmes organised in the former TEF port and on the Banj beach.

Besides the promotion of international musicians, Iskon continued to provide support to national and regional performers. The support was provided to concerts of Massimo and Dubioza Kolektiv in Zagreb and Split.

Iskon provided technical support to the EXHIBITION 1314, in the Museum of Arts and Crafts in Zagreb, giving an overview of the Croatian design in 2013 and 2014.

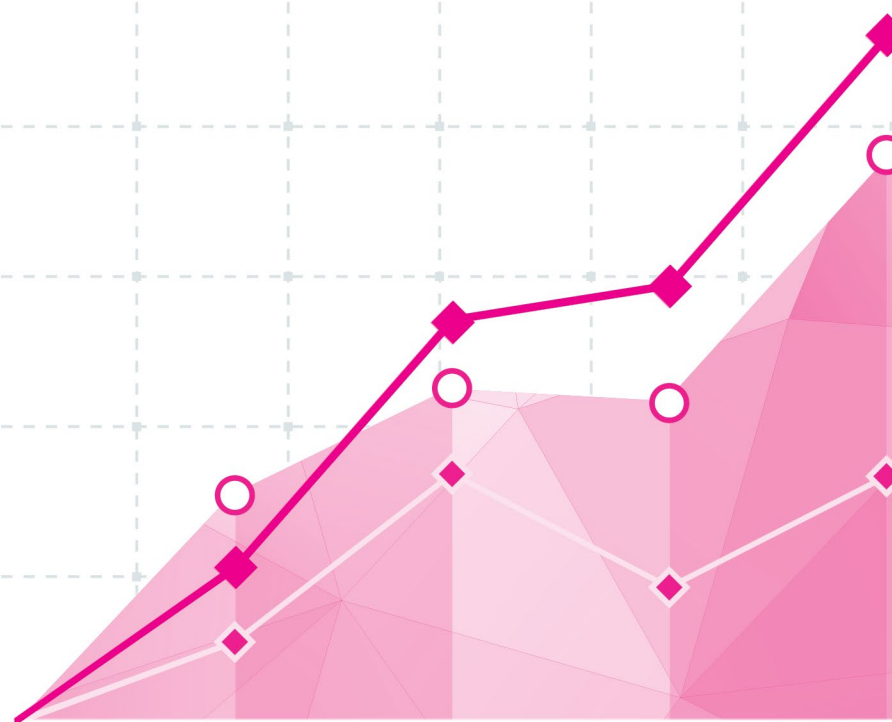
In 2014, Iskon continued its cooperation with the Zagreb Entrepreneurship Incubator, one of the most experienced and renowned incubators for the development of start-up projects in Croatia. The support was also provided to the CUC Carnet conference and the New Europe Conference intended for experts in IPTV and cable television distribution.

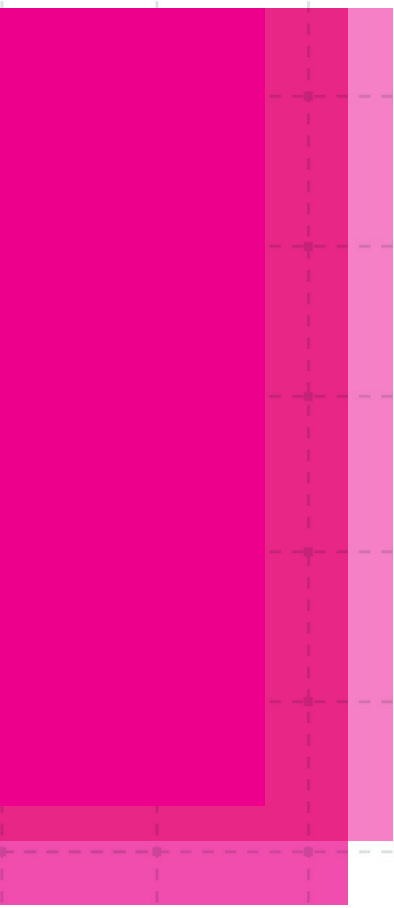
Iskon continued to support charity work. Besides a donation to the Red Cross, the Iskon staff organised the collection and distribution of aid for flooded areas in Slavonia. Iskon donated its services and a humanitarian telephone line to the newly founded association Neuron, which provides assistance to ALS patients, which in the long run will help the association to raise the necessary funds.



# CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS  
NOTES TO THE FINANCIAL STATEMENTS





# RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

11 February 2015

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

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

On behalf of the Group,



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

# INDEPENDENT AUDITOR'S REPORT

## To the shareholders and Management Board of Croatian Telecom Inc.

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

## Management's responsibility for the consolidated financial statements

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

## Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

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

## Emphasis of matter

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

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

John Mathias Gasparac  
Member of the Management Board

Tamara Mačašović  
Certified Auditor

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HRK millions	2013 HRK millions
Revenue	4	6,908	7,042
Other operating income		124	137
Merchandise, material and energy expenses		(1,165)	(1,009)
Service expenses	5	(782)	(889)
Employee benefits expenses	7	(1,128)	(1,114)
Work performed by the Group and capitalised		90	97
Depreciation, amortization and impairment of non-current assets	6	(1,411)	(1,366)
Other expenses	8	(1,413)	(1,266)
<b>Operating profit</b>	4	<b>1,223</b>	<b>1,632</b>
Finance income		36	47
Finance costs		(88)	(71)
Finance costs – net		(52)	(24)
Share of profit of investments accounted for using the equity method	13	14	21
<b>Profit before income tax</b>		<b>1,185</b>	<b>1,629</b>
Income tax expense	9	(47)	(188)
<b>Profit for the year</b>		<b>1,138</b>	<b>1,441</b>
<b>Other comprehensive income for the year</b>			
<b>Items that will not be reclassified to comprehensive income</b>			
Remeasurement of post employment benefit obligations		1	25
<b>Items that may be subsequently reclassified to comprehensive income</b>			
Change in value of available for sale financial assets		3	(0)
<b>Other comprehensive income for the year, net of tax</b>		4	25
<b>Total comprehensive income for the year, net of tax</b>		<b>1,142</b>	<b>1,466</b>
<b>Profit attributable to:</b>			
Owners of the Company		1,143	1,441
Non-controlling interest		(5)	-
		1,138	1,441
<b>Total comprehensive income arisen from continuing operations attributable to:</b>			
Equity holders of the Company		1,147	1,466
Non-controlling interest		(5)	-
		1,142	1,466
<b>Earnings per share</b>			
Basic and diluted, from continuing operations attributable to equity holders of the Company during the year	10	HRK 13,95	HRK 17,60

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2014

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

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

Signed on behalf of the Group on 11 February 2015:



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



Dr. Kai-Ulrich Deissner  
Member of the Management Board of HT d.d. and Chief Financial Officer

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

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

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 1. Corporate information

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

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

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

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

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

## 2.1. Basis of preparation

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

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

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

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

Entity	Country of Business	Ownership interest	
		31 December 2014	31 December 2013
Combis d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%
E-tours d.o.o.	Republic of Croatia	100%	100%
Optima Telekom d.d.	Republic of Croatia	19.11%	-

## 2.2. Changes in accounting policies and disclosures

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

### a) Standards and interpretations effective and adopted

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

### **2.3. Significant accounting judgments, estimates and assumptions**

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

risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **Provisions and contingencies**

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

#### **Impairment of non-financial assets**

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

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

### Useful lives of assets

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

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

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

### Impairment of goodwill

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

### Intangible assets with an indefinite life

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

brand or the weakening in the brand's appeal through changes in customer preferences might result in an impairment charge in the future.

## 2.4. Summary of accounting policies

### a) Operating profit

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

### b) Business Combinations and Goodwill

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

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

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

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree over the fair value of identifiable net assets acquired. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the statement of

comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

### c) Investment in associate

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

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

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

### d) Investment in joint venture

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

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

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

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the

joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### e) Intangible assets

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

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

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

Useful lives of intangible assets are as follows:

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

Assets under construction are not amortised.

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

indicate that the carrying value may be impaired.

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

#### f) Property, plant and equipment

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

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

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

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

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

Depreciation is computed on a straight-line basis.

Useful lives of newly acquired assets are as follows:

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

Land and assets under construction are not depreciated.

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

change in an accounting estimate.

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

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

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

#### g) Impairment of assets

##### Impairment of non-financial assets

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

##### Impairment of trade receivables

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

##### Impairment of available-for-sale financial assets

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

#### h) Inventories

Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is



the selling price in the ordinary course of business, less the costs necessary to make the sale. Cost is determined on the basis of weighted average cost.

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

#### i) Receivables

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

#### j) Foreign currencies

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

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

- (a) assets and liabilities for each statement of financial position presented are translated at the middle exchange rates of the Croatian National Bank prevailing at the statement of financial position date;
- (b) income and expenses for each statement of comprehensive income are translated at average exchange rates of the Croatian National Bank; and
- (c) all resulting exchange differences are recognized in statement of other comprehensive income.

#### k) Leases

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

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified

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

#### l) Taxation

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

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

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

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

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

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

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

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

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



### m) Employee benefit obligations

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

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

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

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

### n) Revenue recognition

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

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

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

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

Third parties using the Group's telecommunications network include roaming customers of other service providers and other

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **o) Cash and cash equivalents**

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

#### **p) Borrowings**

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

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

#### **q) Financial assets**

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

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

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

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

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

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

#### **r) Provisions**

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

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

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

### s) Contingencies

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

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

### t) Share-based payments

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

### u) Events after reporting period

Post-year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end

events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

### v) Trade payables

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

### w) Dividend distribution

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

### x) Earnings per share

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

### y) Reclassifications

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

## Statement of cash flows

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

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

## 3. Business combinations

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

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

The Croatian Competition Agency has conditionally allowed the concentration of HT with Optima based on the proposed financial and operational restructuring plan of Optima within the pre-bankruptcy settlement procedure. The Croatian Competition Agency has determined a set of measures defining the rules of conduct for participant in concentration with regard to management and control over Optima, among which is the implementation of so called

"Chinese wall" between Optima's and HT employees, in relation to all sensitive business information with the exception of reporting of financial data necessary for consolidation.

The control of HT over Optima is limited to a period of four years starting as at 18 June 2014. Upon the expiration of the four-year period it is automatically terminated, without the possibility of ex-

tension. On the date of expiry of the third year, HT is required to start the process selling all its Optima shares, during which HT will have the right to sell Optima shares held by Zagrebačka banka as well.

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

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

The total cost of acquisition amounted to HRK 121 million.

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

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

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

#### 4. Segment information

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

tegic business unit that offers different products and services.

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

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

The Network & Support Functions segment performs cross-segment management and support functions, and includes the Technology, Procurement, Accounting, Treasury, Legal and other central functions. The Network & Support Functions is included in segment information as a voluntary disclosure since it does not meet the criteria for an operating segment.

The Optima Telekom segment includes the contribution of all Optima Telekom's functions to Group financial results following the same reporting structure as used for other operating segments, except revenue details that are only reported in the whole amount

on the Miscellaneous revenue line. According to the restrictions introduced by the regulator, access to Optima Telekom revenue information is limited.

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

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

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

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

### Residential and Business segments

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

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

### Year ended 31 December 2014

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

### Revenue by geographical area

	2014 HRK millions	2013 HRK millions
Republic of Croatia	6,574	6,608
Rest of the world	334	434
	<b>6,908</b>	<b>7,042</b>

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

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

## 5. Service expenses

	2014 HRK millions	2013 HRK millions
Domestic interconnection	375	411
International interconnection	174	253
Other services	233	225
	<b>782</b>	<b>889</b>

## 6. Depreciation, amortization and impairment of non-current assets

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

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

## 7. Employee benefits expenses

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

## 8. Other expenses

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

## 9. Income tax expense

### a) Tax on profit

	2014 HRK millions	2013 HRK millions
Current tax expense	41	190
Deferred tax income	6	(2)
	<b>47</b>	<b>188</b>

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

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

The Group utilized tax relief for 2014 based on intention of reinvesting profit in the amount of HRK 956 million in accordance with Management Board Decision (2013: HRK 694 million). In line with related tax regulations, in order to be able to use this tax incentive, the share capital increase has to be court registered within 6 months

from submission of the income tax return. If subsequently the capital that was increased by reinvested profit is decreased, this may result in a future tax liability for the Group. The Group believes a future tax liability will not arise in this regard. Issued share capital was increased in 2014 in the amount of HRK 694 million (Note 22).

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

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

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

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

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for

corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2016 for the 2014 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until the absolute statute of limitation of 6 years expires. The Group has not recognised deferred income tax assets in respect of losses amounting to HRK 277 million that can be carried forward against future taxable income. These losses relate to subsidiaries of the Group for which it is uncertain whether there will be sufficient future taxable profits to realise these deferred income tax assets.



Losses expires in:	HRK million
2015	102
2016	95
2017	48
2018	32
	<b>277</b>

## 10. Earnings per share

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

Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares or share options. The following reflects the income and share data used in the basic and diluted earnings per share computations:

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

## 11. Intangible assets

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

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

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

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

### Additions of intangible assets

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

### Impairment loss

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

### Disposal of intangible assets

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

### Impairment testing of goodwill

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

	31 December 2014 HRK millions	31 December 2013 HRK millions
Residential	55	55
Business	107	107
Optima Telekom consolidated	90	-
	<b>252</b>	<b>162</b>

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

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

The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions on which the determination of CGUs value in use is based reflect past experience and expectations of market development, particularly the development of revenue, market share, customer acquisition and retention cost, capital expenditures and growth rate. The growth rate does not exceed the long-term average growth rate for the industry in which

the CGU operates. The weighted average growth rate is used to extrapolate cash flows beyond the budgeted period and post-tax discount rate is applied to the cash flow projections. The costs of central functions (Management and Administration) have been allocated between the segments for the purpose of impairment testing based on internal secondary cost allocation, using defined planned internal products. Forecast period is 10 years.

## 12. Property, plant and equipment

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

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

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

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

### Impairment loss

In 2014, the Group recognized an impairment loss of property, plant and equipment of HRK 31 million (2013: HRK 41 million) most-

ly due to transfer to the newer technology. The recoverable amount of that equipment is its estimated fair value less costs to sell, which recoverable amount is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

### Disposal of property, plant and equipment

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

### Ownership over ducts

Although assets (including the ducts as a part of the infrastructure)

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

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

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 DTAG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Inter alia, this provides the underlying principles under which right of way charges and shared usage issues will be based.

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

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

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

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

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

### 13. Investments accounted for using the equity method

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

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

**a) Investment in joint venture:**

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

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

The Group's share in HT d.d. Mostar profit for the year ended 31

December 2014 is recognized in the statement of comprehensive income in the amount of HRK 14 million (2013: HRK 21 million).

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

**b) Investment in associate:**

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

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

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

<b>Summarised statement of comprehensive income</b>	31 December 2014 HRK millions	31 December 2013 HRK millions
<b>Joint venture HT d.d. Mostar:</b>		
Revenue	916	965
Depreciation and amortisation	(252)	(243)
Interest income	7	1
Interest expense	(3)	(5)
<b>Pre-tax profit/(loss)</b>	<b>40</b>	<b>64</b>
Income tax expense	(5)	(8)
Net income	35	56
<b>Dividends received</b>	<b>17</b>	<b>21</b>
<b>Associate HP d.o.o. Mostar:</b>		
Revenue	102	93
Depreciation and amortisation	(3)	(4)
Interest income	1	1
Interest expense	-	-
<b>Pre-tax profit/(loss)</b>	<b>2</b>	<b>(5)</b>
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
<b>Net income</b>	<b>2</b>	<b>(5)</b>
<b>Dividends received</b>	<b>-</b>	<b>-</b>

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

## 14. Available-for-sale financial assets

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

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

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

The estimated fair value of investments in bonds at 31 December 2014 is determined by reference to their market value offered on

the secondary capital market, which is an active market, at the statement of financial position date and belongs to level 1 under the financial instruments fair value hierarchy category. There were no classification changes among financial instruments fair value hierarchy categories in 2014.

## 15. Inventories

	31 December 2014 HRK millions	31 December 2013 HRK millions
Merchandise	58	54
Inventories and spare parts	57	61
	<b>115</b>	<b>115</b>

## 16. Trade and other receivables

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



During 2013, the Group entered into several prebankruptcy settlements with its debtors which stipulate that part of reported current trade receivables is converted to non-current receivables

(HRK 39 million) with maturities up to 5 years.

The aging analysis of trade receivables is as follows:

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

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

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

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

## 17. Cash and cash equivalents and bank deposits

### a) Cash and cash equivalents

Cash and cash equivalents comprise the following amounts:

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

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

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

**c) Time deposits with maturities more than 3 months**

	31 December 2014 HRK millions	31 December 2013 HRK millions
Foreign bank	614	601
Domestic banks	-	16
	<b>614</b>	<b>617</b>

**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	-	-
	<b>22</b>	<b>13</b>	<b>51</b>	<b>21</b>

**e) Secured deposits (reverse REPO agreements)**

Issuer	Currency	Maturity	31 December 2014 HRK millions	31 December 2013 HRK millions
<b>Reverse REPO agreements (Note 28g):</b>				
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	-
			<b>564</b>	<b>317</b>

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

**18. Trade payables and other liabilities**

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

## 19. Deferred income

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

## 20. Employee benefit obligations

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

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

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

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

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 HRK millions	2013 HRK millions
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 HRK millions	Asset retirement obligation HRK millions	Redundancy HRK millions	Variable salary HRK millions	Unused vacation HRK millions	Total HRK millions
<b>As at 1 January 2014</b>	<b>39</b>	<b>23</b>	-	<b>40</b>	<b>13</b>	<b>115</b>
Acquisition of a subsidiary (Note 3)	-	-	-	-	2	2
Additions	13	-	137	74	8	232
Utilisation	(4)	-	(102)	(39)	(12)	(157)
Reversals	(11)	-	-	-	-	(11)
Current portion of employee benefits obligations (Note 20)	-	-	-	2	-	2
Interest costs	-	2	-	-	-	2
<b>As at 31 December 2014</b>	<b>37</b>	<b>25</b>	<b>35</b>	<b>77</b>	<b>11</b>	<b>185</b>
Non-current	37	25	-	-	-	62
Current	-	-	35	77	11	123
	<b>37</b>	<b>25</b>	<b>35</b>	<b>77</b>	<b>11</b>	<b>185</b>

### a) Legal claims

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

### b) Asset retirement obligation

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

### c) Redundancy

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

## 22. Issued share capital

Authorised, issued, fully paid and registered share capital:

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

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

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

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

## 23. Legal reserves

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

## 24. Retained earnings

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

## 25. Commitments

### a) Operating lease commitments

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

Operating lease charges:

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

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

	2014 HRK millions	2013 HRK millions
Within one year	159	168
Between 1 and 5 years	545	542
Greater than 5 years	390	404
	<b>1,094</b>	<b>1,114</b>

The contracts relate primarily to property leases and car leases.

## b) Capital commitments

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

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

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

## 26. Contingencies

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

### a) Competition / Regulatory matters

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

#### Competition Agency proceedings regarding retransmission of football games

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

The proceeding is pending.

The pecuniary fine pursuant to the Competition Act is limited to

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

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

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.

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 12), on 16 September 2008, the Company received a lawsuit filed by the Zagreb Holding Ltd. branch Zagreb Digital City ("ZHSDG") against the Company. ZHSDG 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 DTAG. The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2014 and 2013. Further, DTAG provided technical assistance to the Group of HRK 24 million (2013: HRK 19 million).

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

Related party:	Revenue		Expenses	
	2014 HRK millions	2013 HRK millions	2014 HRK millions	2013 HRK millions
<b>Ultimate parent</b>				
Deutsche Telekom AG, Germany	54	30	134	70
<b>Joint venture</b>				
HT d.d. Mostar, Bosnia and Herzegovina	7	23	7	42
<b>Subsidiaries of ultimate parent</b>				
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
	<b>93</b>	<b>87</b>	<b>160</b>	<b>137</b>

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

Related party:	Receivables		Payables	
	31 December 2014 HRK millions	31 December 2013 HRK millions	31 December 2014 HRK millions	31 December 2013 HRK millions
<b>Ultimate parent</b>				
Deutsche Telekom AG, Germany	3	3	158	149
<b>Joint venture</b>				
HT d.d. Mostar, Bosnia and Herzegovina	-	-	-	9
<b>Subsidiaries of ultimate parent</b>				
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
	<b>6</b>	<b>9</b>	<b>166</b>	<b>241</b>



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

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

### Compensation of the members Supervisory Board

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

who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board, remuneration is the amount of 1.25 of the average monthly net salary of the employees of the Company paid in the preceding month. DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG.

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

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

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

### Compensation to key management personnel

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

	2014 HRK millions	2013 HRK millions
Short-term benefits	41	45
	<b>41</b>	<b>45</b>

## 28. Financial risk management objectives and policies

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

### a) Credit risk

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

The Group does not guarantee obligations of other parties.

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

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

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

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

### b) Liquidity risk

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

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

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

	Less than 3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	>5 years HRK millions
<b>31 December 2014</b>				
Trade and other payables	1,471	37	-	-
Capitalized rights	28	83	159	9
Finance lease	1	3	6	1
Bank borrowings	2	8	95	208
Mandatory convertible loan (MCL)	-	-	41	-
Liabilities from pre-bankruptcy settlement	-	31	27	-
Issued bond	-	4	51	41
Other liabilities	-	-	11	6
<b>31 December 2013</b>				
Trade and other payables	1,549	13	-	-
Capitalized rights	24	80	105	12
Finance lease	2	3	4	-
Other liabilities	-	-	11	7

### c) Interest rate risk

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

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

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

#### d) Foreign currency risk

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

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

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

#### e) Fair value estimation

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

tal structure of the Group comprises of issued capital, reserves and retained earnings and totals HRK 11,235 million as at 31 December 2014 (31 December 2013: HRK 10,700 million).

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

#### f) Capital management

The primary objective of the Group's capital management is to ensure business support and maximise shareholder value. The capi-

#### g) Accepted collaterals

Accepted collaterals for reverse REPO affairs include:

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

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)
	<b>10</b>	<b>41</b>	<b>149</b>	<b>278</b>

## 29. Financial instruments

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

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

## 30. Borrowings

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

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

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

### Currency breakdown of financial liabilities

	31 December 2014 HRK millions	31 December 2013 HRK millions
HRK	177	5
EUR	239	-
	<b>416</b>	<b>5</b>

### Issued bond

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

### 31. Authorization for Services and Applicable Fees

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

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

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

- publicly available telephone service in the fixed electronic communications network,
- publicly available telephone service in the mobile electronic communications network,
- lease of electronic communication network and/or lines,
- transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- value added services,
- internet access services,
- voice over internet protocol services,
- granting access and shared use of electronic communications infrastructure and associated facilities,
- satellite services,

- providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia,
- issuing of comprehensive publicly available directory of all subscribers of publicly available telephone services in the Republic of Croatia, and
- other services.

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

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

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).

### d) Audiovisual and electronic media services

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

Also, the Company (as the operator of public communication network) is obliged to pay a fee in the amount of 0.8% of the total annual gross income generated in previous calendar year by performing transmission and/or retransmission of audiovisual programmes

and their parts through public communication network, including internet and cable distribution for the purpose of the implementation of the National Programme.

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

### e) Electronic communications infrastructure and associated facilities

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

## 32. Share-based and non share-based payment transactions

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

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

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

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

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

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

The MSP is program under which the participant can receive HT shares on expiry of a four-year period. The participant is obliged to invest an amount from 10% to a maximum 33.33% of the paid out

gross annual variable salary to HT shares. The participant is granted one additional HT share for each share, under condition that he/she held them continuously for a period of at least four years from the date of purchase (vesting period). Employee services are recognized as expenses on a pro rata basis over the vesting period. The Group is measuring value of employee services, indirectly, by reference to the fair value of the equity instruments granted. The fair value of the equity instruments granted is measured at grant date by using observable market price.

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

	2014 HRK millions	2013 HRK millions
Expenses	(6)	(2)
	<b>(6)</b>	<b>(2)</b>

### 33. Auditor's fees

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

### 34. Events after reporting period

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

# INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT



## ***Independent Auditor's Report on the Annual Report***

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

We have audited the consolidated financial statements of Hrvatski Telekom d.d. ("the Company") and its subsidiaries ("the Group") as of and for the year ended 31 December 2014 disclosed in the Annual Report on pages 68 to 110 and issued the opinion dated 11 February 2015 disclosed on page 67 in the Annual Report.

### **Management's Responsibility for the Annual Report**

Management of the Company is responsible for the preparation, content and accuracy of the Annual Report of the Group for the year ended 31 December 2014.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the consistency of the Annual Report with the consolidated financial statements referred to above, based on our verification procedures.

We conducted our verification procedures in accordance with the International Standards on Auditing. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the information included in the Annual Report which describes matters that are also presented in the consolidated financial statements ("other information") is, in all material respects, consistent with the consolidated financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

### **Opinion**

In our opinion, the other information included in the Annual Report of the Group as of and for the year ended 31 December 2014 is consistent, in all material respects, with the consolidated financial statements of the Group referred to above.

PricewaterhouseCoopers d.o.o.  
Zagreb, 18 March 2015

John Mathias Gasparac  
Member of the  
Management Board

Tamara Mačašović  
Certified Auditor

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.











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