Annual Report 2008

Hrvatski Telekom

Financial highlights

T-HT Group

in HRK million	Jan - Dec 2008	Jan - Dec 2007	% of charge 08/07
Revenue	**8,816**	**8,580**	**2.7%**
EBITDA before exceptional items	4,009	4,050	-1.0%
EBITDA	3,964	3,955	0.2%
EBIT (Operating profit)	2,602	2,519	3.3%
Net profit	**2,310**	**2,473**	**-6.6%**
EBITDA margin before exceptional items	45.5%	47.2%	-1.7 %
EBIT margin	29.5%	29.4%	0.1 %
Net profit margin	26.2%	28.8%	-2.6 %
CAPEX	1,624	1,248	30.1%
CAPEX / Revenue ratio	18.4%	14.6%	3.8 %
	At 31 Dec 2008	At 31 Dec 2007	% of charge 08/07
ROE	18.5%	19.6%	-1.1 %
Financial leverage ratio	0.22	0.22	0.0%
Quick ratio	3.00	3.19	-6.0%
Number of employees	6,487	6,724	-3.5%

Balance Sheet

in HRK million	At 31 Dec 2008	At 31 Dec 2007	% of charge 08/07
Total non current assets	7,978	7,741	3.1%
Total current assets	7,201	7,551	-4.6%
Total assets	**15,179**	**15,292**	**-0.7%**
Total issued capital and reserves	12,440	12,543	-0.8%
Total non current liabilities	441	454	-2.8%
Total current liabilities	2,298	2,295	0.1%
Total equity and liabilities	**15,179**	**15,292**	**-0.7%**

Operational highlights

T-Com Segment

Key operational data	Dec 2008	Dec 2007	% of charge 08/07
Fixed telephony			
Total POTS and FGSM mainlines	1,444,356	1,500,757	-3.8%
Total ISDN mainlines	105,767	114,056	-7.3%
Total (POTS+FGSM+ISDN)	**1,550,123**	**1,614,813**	**-4.0%**
Payphones	8,948	10,066	-11.1%
Total mainlines (POTS+FGSM+ ISDN+Payphones)	**1,559,071**	**1,624,879**	**-4.1%**
Total Traffic (thousands of minutes) Jan - Dec	**3,797,966**	**4,241,870**	**-10.5%**
To national fixed network	3,177,675	3,519,864	-9.7%
To national mobile network	365,003	433,595	-15.8%
To VAS	66,119	75,863	-12.8%
To international networks	133,210	147,560	-9.7%
Remaining traffic (1)	55,959	64,988	-13.9%
Average monthly voice revenue per voice access (ARPA) (HRK)	150	159	-5.7%
Internet services			
Internet access customers			
Number of Internet subscribers	551,868	482,867	14.3%
Dial-up users	761,324	746,652	2.0%
Active dial-up users	79,215	137,942	-42.6%
ADSL mainlines	472,653	344,925	37.0%
IPTV customers	135,573	43,734	210.0%
Fixed-line customers	1,026	881	16.5%
VPN connection points	2,395	1,383	73.2%
Data services			
Total Data lines and connection points	**6,389**	**7,149**	**-10.6%**
Wholesale services			
Customers			
CPS	235,869	236,065	-0.1%
NP	272,687	145,404	87.5%
ULL	87,072	29,773	192.5%

(1) Includes payphone traffic, operator assisted services, additional services (such as CLIP, CLIR, CFR, conference call, inquiries services and fixed SMS) and calls to satellite.

T-Mobile Segment

Key operational data	Dec 2008	Dec 2007	% of change 08/07
Subscribers			
No. of pre-paid subscribers	1,879,377	1,700,042	10.5%
No. of post-paid subscribers	810,615	684,817	18.4%
Total T-Mobile subscribers	2,689,992	2,384,859	12.8%
% of post-paid subscribers	30.1%	28.7%	1.4 %
Minutes of use (MOU)			
MOU per average subscriber	122.3	127.4	-4.0%
Average revenue per user (ARPU) (HRK)			
Blended ARPU (monthly average for the period in HRK) (1)	118.5	128.8	-7.9%
Blended non-voice ARPU (monthly average for the period in HRK)	24.5	25.1	-2.6%
SAC per gross add	**269.9**	**273.0**	**-1.1%**
Churn rate (%)			
Churn rate total	1.4	1.3	0.1 %
Churn rate post-paid	0.7	0.7	0.0 %
Churn rate pre-paid	1.7	1.5	0.2 %
Penetration (3)	**132.1**	**113.4**	**18.7 %**
Market share of subscribers (%) (3)	**45.9**	**47.4**	**-1.5 %**
Market share by revenue (%) (1) (2)	**50.4**	**52.2**	**-1.8 %**

(1) Revenue from VAS services for actuals 2007 and 2008 is presented on net principle.
(2) Market share by total revenue without national roaming.
(3) Source: published VIPnet's and Tele2's quarterly report for 4Q 2007. Number of subscribers for VIPnet and Tele2 for 4Q 2008 internally estimated. Source: Telekom Austria Annual report for Q1, Q2 & Q3 2008. Tele2 Quarterly report for Q1,Q2 & Q3 2008. VIPnet's total revenue for Jan - Dec 2008 internally estimated. VIPnet's national roaming services for Jan - May 2008 internally estimated. Tele2 total revenue internally estimated.

Presentation of information in the Annual Report

Unless the context otherwise requires, references in this publication to ''T-HT Group'' or ''the Group'' or "T-HT" are to the Company — HT—Hrvatske telekomunikacije d.d., together with its subsidiaries.
References to ''HT'' or the ''Company'' are to the Company — HT—Hrvatske telekomunikacije d.d.
References to ''T-Mobile'' are to the Company's wholly-owned subsidiary, T-Mobile Croatia d.o.o., which also functions as the Group's mobile operations business unit.
References to ''T-Com'' are to the Group's other business unit which is responsible for the fixed network, wholesale, broadband, data and on-line services.
References to ''Iskon'' are to the Company's wholly-owned subsidiary, Iskon Internet d.d, which forms part of the T-Com business unit.
References in this publication to ''Agency'' are to the Croatian National Regulatory Authority, the Agency for Post and Electronic Communications.
The Group's results are presented to reflect its composition of two distinct businesses.

- T-Mobile provides mobile telephony services including wholesale, Internet and mobile data services.
- T-Com provides fixed telephony, wholesale services, Internet and data services. It encompasses HT-Hrvatske telekomunikacije d.d., Iskon Internet d.d. and KDS d.o.o..

Because of inter-segment transactions, the sum of the financial results of the two individual segments does not equal the Group's financial results in total.

Content

Introduction

Letter to Shareholders

Dear shareholders,

Before you is the report on T-HT's business operations and results for 2008. It is my pleasure to confirm that all Group targets presented at the beginning of the financial year have been accomplished in full. Our company continues to be the market leader in all segments of the telecom business. We have achieved respectable financial results by focusing on the creation of value for our customers, for you, our shareholders, and for our employees.

In accordance with the business results of the Group and the financial statements, the Management Board and the Supervisory Board have proposed to the General Assembly of HT -Hrvatske telekomunikacije d.d. a dividend of HRK 29,99 per share.

The T-HT Group strategy is to ensure that we achieve the following objectives for all of our stakeholders: the highest level of satisfaction for our customers; opportunities for our employees to grow and develop; and the creation of value for our shareholders. Therefore, our goal is to offer new and innovative services tailored to the needs of specific customer segments. This is why we increased our investment in network development and modernization last year - investments that we believe will help to improve not just our own business, but also the long-term competitiveness of the entire Croatian economy.

The year in review was T-HT's first full year of trading on the Zagreb and London Stock Exchanges. However, 2008 will also be remembered as year of turmoil and financial crises that significantly affected the world's capital markets. CROBEX, the Zagreb Stock Exchange index, lost 67.13% of its value in 2008 and T-HT shares were of course affected by this volatility.

However, due to the attractive characteristics of the telecom sector in general and of T-HT's healthy balance sheet, strong cash flow and high dividend yield, T-HT shares outperformed CROBEX by 20 pp over the year.

The strong growth of broadband services, the increased use of mobile data services and the rapid growth of interactive television were the most significant trends in the Croatian telecom market in 2008.

T-Mobile, our mobile subsidiary, maintained its market leadership with a 50.4% revenue share and nearly 2.7M customers at the end of 2008. It was the only company in Croatia to offer Apple's iPhone 3G, the world's most desirable handset, in 2008.

We are especially pleased to increase our share of postpaid mobile users and related monthly revenues, while the national roaming contract signed with Tele2, Croatia's third-largest mobile operator, helped T-Mobile achieve excellent results.

T-Com, our fixed network business unit, continued to lead the market with innovative services based on broadband internet access. T-Com's MAXadsl has continued to be the no. 1 choice among internet users, reaching more than 472,000 subscribers by the end of the year - an 37% increase as compared to end of year 2007. MAXtv, our interactive digital television service, was a remarkable success, increasing subscriber numbers by 210% and ending the year in more than 135,000 homes. We attribute this success to a rich variety of local and international programming, a comprehensive video-on-demand service, new HD channels and innovative network program recording services.

Thanks to its consistently attractive offers and enriched multimedia content, our internet portal - tportal - continues to be the leading news site in Croatia. Both MAXtv and tportal show how strongly we believe that content is one of the most important factors for the further growth of broadband Internet access.

T-Com wholesale services posted a good growth rate, as a result of market liberalization and the introduction of new services. As for the business customers segment, T-Com's Net phone was introduced, offering a more favorable IP telephony service for corporate clients.

Turning to our financial results, the Group increased revenues by 2.7% to HRK 8.816 million. The strongest growth of 33.2% was achieved by our internet service, almost fully compensating for the expected fall of fixed telephony revenues by 10.1%.

EBITDA before exceptional items fell by just 1% and amounts to HRK 4,009 million. Some Group expenses increased, primarily those related to cost of sales for new ADSL and IPTV service users, but also the costs of customer retention. We continued to invest in new processes that enabled us to reduce costs and protect margins in an ever-more competitive market. As an example, our synergy project for combined sales of T-Mobile and

T-Com yielded excellent results and optimized sales processes.

Our strong cash generation has enabled the payment of our entire 2008 profits in the form of a dividend, even after significant increases in network and infrastructure investments. Our investments in network infrastructure will enable us to offer new services, increase quality and lower costs of operation. Fast deployment of high bandwidth Internet services both via the fixed-line and mobile networks will ensure that we are able to offer the services to our customers and that we can stay ahead of our competition.

As one of Croatia's leading companies, we have an enduring commitment to corporate social responsibility and in addition to our business activities we furthered our contribution to the improvement of our community.

Our success in 2008 enabled us to develop new initiatives for socially-deprived groups, for example a special tariff package for low-income users and our continuing policy of offering discounts to users with special social needs.

We continued to work with educational, cultural and science institutions, and to help people in adverse circumstances. We are the leading partner of UNICEF in Croatia, and of the Museum of Contemporary Art. We support large cultural events through the KulTurist project, sponsor the Croatian football team, support two prestigious regattas and are keen supporters of music in Croatia.

Looking ahead, what can our customers and shareholders expect in 2009?

There are significant capital investments ahead of us, which we will carefully measure against the success of the overall business objectives. It is our intent to participate in the possible privatization of HT Mostar, and we will continue to examine other possible expansion opportunities in order to create value for our shareholders.

We are committed to maintain our no.1 position in the ever-more demanding telecom market and focus on our strategic priorities: customer satisfaction, growth, and improvements in quality and efficiency. Whatever challenges the global crisis brings, we are sending a clear signal to our shareholders and to the market that these core values will remain unchanged.

I would like to extend my thanks to the Group's employees, the management team and to my colleagues on the Management Board and Supervisory Board for their excellent work and exceptional support in 2008.

Zagreb, February 2009

Ivica Mudrinić
President of Management Board

Corporate Profile

At a Glance

The 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 Group conducts its business through the T-Com Business Unit (which is not a separate legal entity), T-Mobile and smaller subsidiaries.

The activities of HT-Hrvatske telekomunikacije d.d., T-Mobile Hrvatska d.o.o. and other subsidiary companies comprise the provision of telecommunications services, design and construction of telecommunications networks in the territory of the Republic of Croatia.

In addition to the provision of fixed telephony services (fixed-line access and traffic, as well as fixed-network supplementary services), the Group also provides Internet services, data transmission services (lease of lines, ATM, X25 and Frame Relay), and GSM and UMTS mobile telephone networks.

History and Incorporation

HT - Hrvatske telekomunikacije d.d. (HT d.d. or the Company) is a joint-stock company majority owned by Deutsche Telekom AG (DTAG). 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 its operations on 1 January 1999.

Pursuant to the terms of the Law on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold 35% share in HT d.d. to DTAG, and on 25 October 2001 DTAG purchased a further 16% share in HT d.d. and thus became the majority shareholder with 51% share in ownership. As of 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 Law on Privatization of HT d.d. (Official Gazette No. 65/99 and 8/2001).

During 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 telecommunication services. HTmobile commenced its commercial activities on 1 January 2003, and in October 2004, the company name was officially changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded as T-HT, thus becoming a part of the global „T“ family of Deutsche Telekom. The change of identity at corporate level 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 provides wholesale, Internet and data services, and the mobile operations business unit, T-Mobile.

As of 30 May 2006, the Group acquired 100% of shares of Iskon Internet d.d., one of the leading alternative providers in Croatia.

Pursuant to the provisions of the Law on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 2007, the Republic of Croatia sold 32.5% of T-HT ordinary shares by Initial Public Offering (IPO). Of the 32.5% of shares, 25% were sold to Croatian retail investors, while 7.5% were bought by Croatian and international institutional investors.

Following the sale of shares to present and former employees of T-Hrvatski Telekom and Croatian Post in June 2008 and transfer bonus shares to Croatian retail investors who were entitled to bonus shares in October 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.6 % while private and institutional investors now hold 38.4%.

Investor Information

Economic environment and share price performance

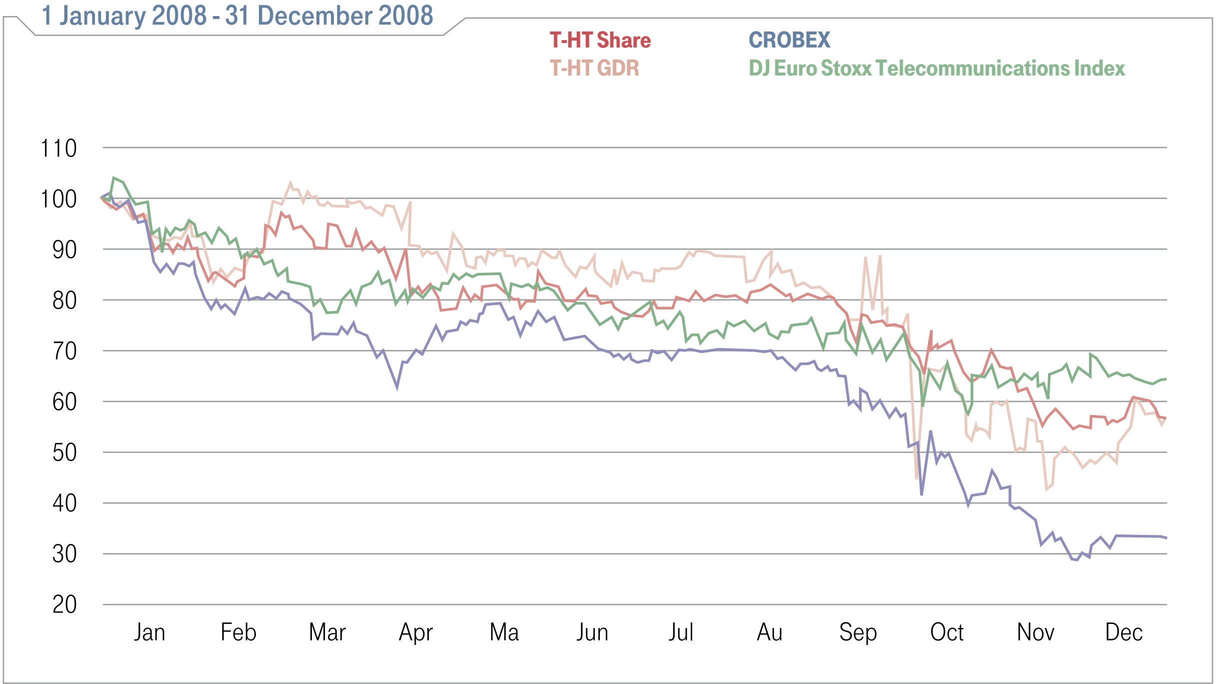
The global economy suffered a turbulent year in 2008, with widespread and substantial corrections on the world's capital markets. Emerging capital markets were particularly badly hit as significant international funds were repatriated to domestic markets.

Following a banking crisis that triggered the collapse of some financial institutions and government bail-outs for many others, investor sentiment remains cautious and the focus of attention will be on how the crisis will affect jobs and consumer spending in near future.

These factors, allied to a significant decrease in liquidity on the Zagreb Stock Exchange, led to the Croatian benchmark CROBEX index losing 67.1% of its value in 2008. It is fair to say that many of Croatia's new private investors were taken aback by the scale of the market turbulence and were keen to sell their investments, thus aggravating a widespread sell off in the Croatian market.

T-HT was not immune, its share falling 43.5% in 2008. But thanks to the defensive qualities of telecom sector in general and the attractiveness of T-HT's healthy balance sheet, strong free cash flow and high dividend yield, T-HT Shares outperformed CROBEX by more than 20 percentage points. The chart below shows the performance of T-HT Shares and GDRs against CROBEX and the Dow Jones Euro Stoxx Telecommunications Index, which is a leading index of the telecommunications industry measuring the performance of some Europe's largest telecom companies.

T-HT Share and GDR as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index
1 January 2008 - 31 December 2008



T-HT Shares closed 2008 at HRK 199.22, representing a decrease of 43.5% on the HRK 352.75 at which they closed on the last trading day of 2007. During 2008, Shares reached a high closing price of HRK 351.75 and a low of HRK 190.35 (source: Zagreb Stock Exchange).

T-HT was the most traded share on the Zagreb Stock Exchange in 2008, with HRK 2.4 billion of turnover that accounted for 13.5 % of ZSE's total traded value of shares in 2008.
As at 31 December 2008, T-HT was the largest company on ZSE, with a market capitalisation HRK 16.3 billion (EUR: 2.2 billion) representing 11.5% of the total market by value (source: Zagreb Stock Exchange).
At the last revision of the CROBEX index constituents, the weighting of T-HT Share was set at maximum of 15% of the index.
Besides T-HT Shares being listed on the Official Market of the Zagreb Stock Exchange, Global Depositary Receipts (GDRs) - each representing one T-HT Share - are tradable on the London Stock Exchange.

Dividend policy

In August 2007, the Company and its major shareholders entered into a Memorandum of Understanding which, among other things, specified the dividend policy as follows:

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

Dividend for the 2007 financial year

In April 2008, the General Assembly of the Company approved a dividend payment to shareholders in the amount of HRK 2.4 billion (HRK 29.56 per share), representing a dividend payout ratio of 100%. The dividend was paid in May 2008. At the end of 2008, this represented a dividend yield of 14.8% on T-HT's share price of HRK 199.22 on the final trading day of the year.

Dividend proposal for the 2008 financial year

The Management Board and Supervisory Board of HT-Hrvatske telekomunikacije d.d. propose to this year's General Assembly, to be held on April 21, the distribution of a dividend of HRK 29.99 per share which will be paid from 2008 financial year profits and retained earnings, resulting in total dividend payment of HRK 2,455,837,164.65.

The Supervisory Board gave its consent to the Management Board to pay to the shareholders an advance dividend of HRK 12.84 per share or HRK 1,051,448,789.40 in total. The due date for advance dividend payment is 9 March 2009.

According to the proposal, the residual amount of HRK 17.15 per share will be paid to shareholders on 19 May 2009.

Shareholder Structure as at 31 December 2008.

Deutsche Telekom	51,0%
War Veterans' Fund	7,0%
Republic of Croatia	3,6%
Private and institutional investors	38,4%

Total number of shares issued: 81,888,535

In 2008, the Republic of Croatia decreased its shareholding from 9.5% to 3.6%, after selling 4.2% at preferential terms in Employee Offering in June 2008 and distributing of 1.7% of the shares as a bonus shares in October 2008.

As at 31 December 2008, more than 285,000 Croatian citizens held T-HT Shares, representing 27.4% of the total share capital of the Company.

Financial Calendar

	Date
Release of full year 2008 results	February 27, 2009
The General Assembly of the Company	April 21, 2009
Release of first quarter 2009 results	April 30, 2009
Release of first half 2009 results	July 30, 2009
Release of first nine months 2009 results	October 30, 2009

The above-mentioned dates are subject to change

General information on Shares and GDRs

Shares:	ISIN: HRHT00RA0005
Regulation S GDRs:	ISIN: US4432962078
Rule 144A GDRs:	ISIN: US4432961088
ZSE Share trading symbol:	HT-R-A
LSE GDR trading symbol:	THTC
Portal Rule 144A GDR listing symbol:	P443296108
Reuters:	THTC.L, HT.ZA
Bloomberg:	THTC LI, HTRA CZ
Number of Shares:	81,888,535
Type:	Ordinary share
Nominal value:	HRK 100

Each GDR represents one Share on deposit with the Custodian.

The depository for the GDR is:
JPMorgan Chase Bank, N.A.,
4 New York Plaza
13th Floor
New York
New York 10004
United States of America

The Custodian is:
Privredna Banka Zagreb
Račkoga 6
10000 Zagreb
Croatia

Investor Relations

Investor Relations Department
HT-Hrvatske telekomunikacije d.d.
Savska cesta 32
10000
Zagreb

Tel.: +385 1 49 12000,
+385 1 49 11114,
+385 1 49 11884
Fax.: +385 1 49 12012,
+385 1 49 11115
E-mail: ir@t.ht.hr

Management Board

Ivica Mudrinić
President of the Management Board

Ivica Mudrinić was born in 1955. He graduated in electrical engineering from the University of Toronto in 1978. His first job was in the Product Development Department of Motorola Communications, and in 1985 he founded his own company, MX Engineering Inc. In 1990, he returned to Croatia and soon became adviser for communications to the President of the Republic. At the end of the following year, he became Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 was appointed Minister. From 1994 Ivica Mudrinić also served as President of the Telecommunications Council. He held the post of President of the Management Board of Hrvatska radiotelevizija (Croatian Radio and Television) from 1996 until 15 October 1998, when he was appointed General Manager of Hrvatska pošta i telekomunikacije (Croatian Post and Telecommunications). Since the separation of Croatian Post and Telecommunications on 1 January 1999, he has served as President of the Management Board of HT-Hrvatske telekomunikacije.

Irena Jolić Šimović
Member of the Management Board
Chief Operating Officer T-Com

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 HT-Hrvatske telekomunikacije, she worked at Croatian Radio and Television (HRT) and the

Branka Skaramuča, Božidar Poldrugač, Rainer Rathgeber, Ivica Mudrinić, Jürgen P. Czapran, Irena Jolić Šimović

Ministry of the Sea, Transport and Communications and Ministry of Immigrations. She has been working in senior management positions at HT-Hrvatske telekomunikacije since 1998.
As Executive Director for Corporate Strategy and Business Development until August 2006 she successfully managed the processes of Company's transformation and reorganization and contributed to positive changes in T-HT. She was appointed Member of T-HT Management Board and Chief Human Resources Officer in August 2006 where her activities were focused on changing the direction of the HR function from operational delivery towards business support. She has been Chief Operating Officer T-Com since October 2008.

Rainer Rathgeber

Member of the Management Board
Chief Operating Officer Mobile
President of the Management Board of T-Mobile Croatia

Rainer Rathgeber was born in 1964. He earned a degree in economics from the University in Passau. He started his career by working for the prominent consulting companies A.T. Kearney and Roland Berger, for their offices in Germany and Latin America. In 2002 he joined the team of T-Mobile International, working in the areas of strategy and regulatory issues, sales and service strategy and market management as Executive Vice President for all European countries. In September 2006, Rainer Rathgeber was appointed Member of the

Management Board of T-HT and Chief Operating Officer Mobile, and President of the Management Board of T-Mobile Croatia.

Branka Skaramuča

Member of the Management Board
Chief Human Resources Officer
Member of the Management Board and CHRO of T-Mobile Croatia

Branka Skaramuča was born in 1958 and in 1982 obtained a master's degree in Psychology at the Faculty of Philosophy, University of Zagreb. She started her career in 1985 in Pliva where she worked in Personnel from 1985 until 1989. Between September 1989 and March 1993 she was Marketing Manager after which she returned to human resources in the position of HR Director for Croatia and then Global HR Director until February 2002. She was appointed the Management Board member and Chief Human Resources Officer for HT in 2002. Since March 1, 2004 has been a Management Board member and Chief Human Resources Officer of HT Mobile Communications LLC., today T-Mobile Hrvatska.
In September 2008 the Supervisory Board of T-Hrvatski Telekom appointed Branka Skaramuča a Member of the Management Board and Chief Human Resources Officer of T-HT.

Jürgen P. Czapran

Member of the Management Board
Chief Financial Officer
Member of the Management Board and CFO of T-Mobile Croatia

Jürgen P. Czapran was born in 1952, in Singen, Germany. He started his career as a graduate economist in 1979 with Philips GmbH, where he served as director for more than 20 years, primarily in the area of consumer electronics and customer communications. In 2000, he was appointed Executive Vice President of Financial Controlling in T-Mobile International, and in December 2004 he took the position of Member of the Management Board and Chief Financial Officer of T-Mobile Croatia. At the Supervisory Board Session held on 12 February 2007, he was appointed Member of T-HT Management Board and Chief Financial Officer.

Božidar Poldrugač

Member of the Management Board
Chief Technical and Chief Information Officer Group
Member of the Management Board and CTO of T-Mobile Croatia

Božidar Poldrugač was born in 1967. He graduated from the Faculty of Electrical Engineering and Computing, Zagreb University in 1992 and earned a master's degree from the same faculty in 2000, focusing on mobile communications and network migrations between second and third generation mobile telephony. He began his career at Croatian Post & Telecommunications in 1993. Since 1994, he has participated in all the development activities related to implementation of the first GSM network in Croatia. After the separation of Croatian Post & Telecommunications, he continued his career in Hrvatski Telekom, where he served as Member of the Management Board and Director for Mobile Communications from October 1999 to October 2001. He was Chief Technical Officer for Mobile Communications at Hrvatski Telekom from October 2001 to 1 January 2003, when the subsidiary company was founded - HT Mobile Communications LLC (today T-Mobile Croatia). In the newly founded company, he became a Member of the Management Board and CTO of HT Mobile Telecommunications LLC. Since November 2001, he has been a standing member of the Technology Board of T-Mobile International. In January 2003, he also became a standing member of the TMO Information Technology Board. At the session of the Supervisory Board of T-HT on 13 March 2007, he was appointed Member of the Management Board and Chief Technical and Chief Information Officer Group.

Ivana Šoljan

Member of the Management Board and Chief Operating Officer T-Com until 30 September 2008

Compensation to the Management Board members in 2008:

In 2008, Ivica Mudrinić, President of the Management Board, was paid a fixed salary contracted in annual gross amount of HRK 1,907,784 in average net monthly instalments of HRK 80,276. Variable part, in accordance with 2007 goals achievement, amounted to HRK 1,238,047 net. Benefit in kind amounted HRK 324,248 for company car usage and tax free Christmas bonus.

Jürgen P. Czapran, member of the Management Board, was in 2008 paid a fixed and variable salary contracted in annual gross amount of HRK 3,876,660. The amount of benefit in kind, was HRK 333,441 for rental, insuarance, travel expenses, etc.

Rainer Rathgeber, member of the Management Board, was in 2008 paid a fixed and variable salary contracted in annual gross amount of HRK 3,847,616. The amount of benefit in kind of HRK 858,483 was charged for rental, insuarance, travel expenses, etc.

Božidar Poldrugač, member of the Management Board, was in 2008 paid a fixed salary contracted in annual gross amount of HRK 1,264,996 in average net monthly instalments of HRK 53,729. Variable part, in accordance with 2007 goals achievement, amounted to HRK 209,157 net. The benefit in kind amounted HRK 98,829 for company car usage, tax free children gift and tax free Christmas bonus.

Irena Jolić Šimović, member of the Management Board, in 2008 was paid a fixed salary contracted in annual gross amount of HRK 1,165,318 in average net monthly instalments of HRK 47,880. Variable part, in accordance with 2007 goals achievement, amounted to HRK 191,954 net. The benefit in kind amounted HRK 159,138 for company car usage, usage of Company's products and tax free Christmas bonus.

Branka Skaramuča, member of the Management Board, was in 2008 paid a fixed salary contracted in annual gross amount of HRK 203,376 for period November to December 2008 in average net monthly instalments of HRK 50,862. The benefit in kind amounted HRK 40,443 for company car usage and tax free Christmas bonus.

Ivana Šoljan, member of the Management Board, was in 2008 paid fixed salary contracted in annual gross amount of HRK 1,353,026 for period January to October 2008 in average net monthly instalments of HRK 66,545. Variable part, in accordance with 2007 goals achievement, amounted to HRK 305,720 net. The benefit in kind amounted HRK 179,593 i for company car usage and the usage of Company's products.

Supervisory Board

Michael Günther
President of the Supervisory Board

dr. Ivica Mišetić
Member from 21 April 2008
Deputy President from 8 May 2008

Miroslav Kovačić
Deputy president until 25 March 2008

Fridbert Gerlach
Member

dr. Ralph Rentschler
Member

Josip Pupić
Member

Siegfried Pleiner
Member

Kathryn Walt Hall
Member from 21 April 2008

Slavko Leban
Member from 21 April 2008

Ana Hrastović
Member until 25 March 2008

Miljenko Boban
Member until 21 April 2008

Horst Hermann
Member until 15 August 2008

As specified by the Company, 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 proceeding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the proceeding month is paid while any other member receives the amount of one average net salary of the employees of the Company paid in the proceeding month. DTAG representatives do not receive any remuneration for the membership in the Supervision due to a respective policy of DTAG. No loans were granted to the members of the Supervisory Board.

Compensation to the Supervisory Board members in 2008

	Period in which compensation is paid		Gross
	From	To	HRK
Miljenko Boban	1 January 2008	25 March 2008	52,857
Josip Pupić	1 January 2008	31 December 2008	140,418
Kathyn Hall	21 April 2008	31.prosinca 2008.	78,339
Ana Hrastović	18 January 2008	25 March 2008	25,804
Miroslav Kovačić	18 January 2008	25 March 2008	32,255
Slavko Leban	21 April 2008	31 December 2008	85,854
Ivica Mišetić	21 April 2008	31 December 2008	106,058

Supervisory Board's Report

Pursuant to Article 263, paragraph 3, and Article 300.c, paragraph 2, of the Companies Act and Article 31 of the Articles of Association of HT - Hrvatske telekomunikacije d.d., the Supervisory Board of HT - Hrvatske telekomunikacije d.d. Zagreb, Savska cesta 32, (hereinafter: the "Company"), consisting, on the day of issuance of this report, of Mr. Michael Günther, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Mr. Fridbert Gerlach, Dr. Ralph Rentschler, Mr. Siegfried Pleiner, Ms. Kathryn Walt Hall, Mr. Slavko Leban, M.D and Mr. Josip Pupić, representative of the workers of HT d.d., Members of the Supervisory Board, submits to the General Assembly this

REPORT on performed supervision during the business year 2008 and on the results of the examination of the business and financial reports for the business year 2008

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 2008,
- the results of the examination of the annual financial statements as of 31 December 2008 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 report on the status of business operations for the business year 2008,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

Deutsche Telekom AG (hereinafter: "DTAG") is the majority owner of the Company with a 51% stake. Following the sale of shares to present and former employees of the Company and Croatian Post in June 2008, and following the transfer of bonus shares in October 2008 to Croatian retail investors who were entitled to bonus shares, as planned at the time of the IPO in October 2007, the Republic of Croatia reduced its holding from 9.5% to 3.6%. The Croatian War Veteran's Fund (hereinafter: "Fund") owns 7.0% of shares while private and institutional investors hold 38.4%.

The shares of the Company are included in depository services of the Central Depository Agency 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 representing one (1) HT d.d. share, have been listed on the London Stock exchange since 5 October 2007.

On the day of issuance of this Report, the Supervisory Board has four members representing Deutsche Telekom, one member representing the Republic of Croatia, two independent members and one member appointed by the Workers' Council of HT d.d.

Supervisory Board

During 2008, the composition of the Supervisory Board of the Company changed as follows:

The term of office of the Members of the Supervisory Board Ms. Ana Hrastović and Mr. Miroslav Kovačić expired on 25 March 2008. One member of the Supervisory Board, Mr. Miljenko Boban, submitted his resignation with effect from the closing of the 1st ordinary General Assembly on 21 April 2008.

Mr. Ivica Mišetić, Ph.D., Ms. Kathryn Walt Hall and Dr. Slavko Leban were elected as new Members of the Supervisory Board as of 21 April 2008. Later, Mr. Ivica Mišetić, Ph.D., was elected as deputy Chairman of the Supervisory Board as of 8 May 2008.

Mr. Horst Hermann resigned from the position of Member of the Supervisory Board with effect from 15 August 2008 and from the position of the Chairman of the Audit Committee of the Supervisory Board.

Audit Committee

On the day of issuance of this report Mr. Kay Nolden, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Siegfried Pleiner, Member, are the members of this Committee.

Compensation and Nomination Committee

On the day of issuance of this report Mr. Michael Günther, Chairman, Dr. Ralph Rentschler, Member, and Ms. Kathryn Walt Hall, Member, are the members of this Committee.

Management Board

On the day of issuance of this report, the Management Board of the Company has six (6) members.

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

- Ms. Ivana Šoljan resigned from her position as a Member of the Management Board and Chief Operating Officer Fixed and Broadband (COO T-Com) effective as of 1 October 2008.
- Ms. Irena Jolić Šimović, Member of the Management Board and previous Chief Human Resources Officer, was appointed as Member of the Management Board and Chief Operating Officer Fixed and Broadband (COO T-Com) effective as of 1 October 2008.
- Ms. Branka Skaramuča was appointed as Member of the Management Board and Chief Human Resources Officer effective as of 1 October 2008.

Performed supervision during the business year 2008

In 2008 there were five (5) sessions of the Supervisory Board. 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.

The Supervisory Board passed three (3) out-of-session decisions as follows:

- Proposal relating to the nominees to be elected by General Assembly as Members of the Supervisory Board,
- Decision on granting prior approval for the appointment of the Member of the Management Board of HT's subsidiary, T-Mobile Croatia LLC and for the introduction of the New Salary System,
- Decision on granting prior approval for the sale of T-HT's stake in Tehnološki centar Split d.o.o. to the University of Split.

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

- Strategic program - ADSL, IPTV, IP based network, churn prevention, IP business solutions, process & quality, market trends and competition strategy of the Company,
- Broadband penetration, tariff options, cost management programs and strategic project programs, investment planning,
- Regulatory framework,
- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system,
- Corporate Governance and changes in the composition of the Membership of the Management Board as outlined above,
- Status of documentation and ownership over HT d.d.'s infrastructure and network, i.e. utilization of DTI in accordance with the new Law on Electronic Communications, activities of the Croatian Telecommunications Agency, activities of the local self-governing units,
- International activities of the Company,
- Annual Business Plan for 2009 and Strategic Plan for 2009 - 2011,
- Appointments of the Members of the Compensation and Nomination Committee of the Supervisory Board, definition of the scope of activities and determination of the rules of procedure of the Committee as well as the target-setting and target-achievement proposals related to the MB Members and remuneration proposals for new Members of the Management Board,

- Scope of activities and reports of the Audit Committee of the Supervisory Board of HT d.d and updates with respect to the Sarbanes-Oxley (S-OX) compliance and Croatian Audit Law,
- Significant risks and exposures (Consumer Protection Litigation Status, Frame Contracts Litigation Status),
- Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and the listing of GDRs representing the Company's shares on the London Stock Exchange.

In 2008, the Audit Committee of the Supervisory Board held five (5) regular sessions and one (1) telephone conference and discussed various issues, especially:

- 2008 year-end closing of T-HT Group,
- 2008 Audit Plan provided by external auditor,
- Implementation and effectiveness of internal control over financial reporting according to S-OX; S-OX 404 project (established for continuing monitoring the compliance with the Sarbanes-Oxley Act) & Testing results,
- External Auditor's Report (quarterly reports, Auditor's Independence, Report on auditor engagement, new accounting and disclosure requirements in 2008, etc.),
- Fraud Report and Risk Reports for T-HT Group,
- Implementation, status and reports of the compliance officer (incl. procedures),
- Status of Anti-Fraud Management and AFM Assessment results,
- Update and approval of the AC Charter and Audit Manual,
- Measures monitoring and closing the remaining activities from 2007,
- Audit program 2007/2008 (execution, planning program),
- Supervision over the realization of audit measures and audit reports (fraud management and reporting, compliance audits, IT solutions, Real Estate , property registration, network registration, network capacity, business continuity activities, etc.),
- Rights and responsibilities of the Audit Committee according to S-OX,
- Internal auditing program for 2009,
- 2008 self assessment of the AC.

In 2008, the Compensation and Nomination Committee began the target-setting procedure for 2009 and also began preparing the target evaluation procedure for 2008. Changes in the Membership of the Management Board as outlined above were also covered by their Agenda.

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

The Management Board, within the legal deadlines, submitted to the Supervisory Board of the Company the annual financial statements for the business year 2008 together with the audit report, the annual report on the status of the business operations, and the draft decision on utilization of the profit realized by the Company during the previous business year.

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 2008, 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, Ernst & Young 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 Accountants

Quote:
We have examined management's assertions, included in the attached Report of the Management Board of HT - Hrvatske telekomunikacije d.d. on the relationships with the governing and affiliated Companies (Related Party Report) for the year ended 31 December 2008.

Management is responsible for HT - Hrvatske telekomunikacije d.d.'s ("HT") compliance with requirements of Article 497 of the Croatian Company Law. Our responsibility is to express an opinion on management's assertion about HT's compliance based on our examination.

Our examination was conducted in accordance with International Standards on Auditing and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

In our opinion, management's assertions provided in the Related Party Report for the year ended 31 December 2008 are fairly stated, in all material respects.

This report is intended solely for the information and use of HT and is not intended to be and should not be used by anyone else.

Ernst & Young d.o.o. Slaven Đuroković
Zagreb,
Croatia
17 February 2009
End of quote.

The Supervisory Board has no objections to the results of the auditor's examination of the Management Board Report on relations with the governing company and the affiliated companies thereof.

After considering the Management Board Report on relations with the governing company and the affiliated companies thereof, the statement of the Management Board and the results of the auditor's examination, 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 Management Board Report on relations with the governing company and the affiliated companies thereof, 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 2008 and draft decision on utilization of profit

The Supervisory Board issued an order to Ernst & Young, the Company's auditor, for the examination of the annual financial statements for the year 2008.

The Supervisory Board, after considering the audited financial statements for the business year 2008, established that the Company acted in 2008 in accordance with the law, the acts of the Company and the decisions of the General Assembly, that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements for the business year 2008.

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 established by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board has considered the Annual Report on the status of business operations for the business year 2008 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 realized by HT - Hrvatske telekomunikacije d.d. in the business year 2008 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 regulations of the Republic of Croatia.

Therefore, the Supervisory Board gives its approval to the proposal of the Management Board on the utilization of profit from the year 2008, and that the net profit from the year 2008 in the amount of HRK 2,103,678,782.86 and a part of the retained earnings from previous years in the amount of HRK 352,158,381.79 is utilized for dividend payment of HRK 29,99 per share to shareholders, amounting to a total of HRK 2,455,837,164.65.

The Supervisory Board gave its consent to the Management Board to pay to the shareholders an advance dividend of HRK 1.051.448.789,40 or HRK 12,84 per share.

After the distribution of the net profit for the year 2006 the legal reserves and capital reserves reached the 5% of the share capital as prescribed by the Companies Act. Consequently there is no further obligation for the Company to allocate net profits into the legal or capital reserves.

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 2008.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the financial indicators, it was assessed that the planned business parameters were realized and that the Company's business was successful.

Aside from the financial results for the year 2008, the Supervisory Board considered and approved the Company's business plan for the year 2009.

Pursuant to all of the above, the Supervisory Board will deliver to the General Assembly of the Company this Report on the performed supervision of the managing of the Company's business operations in 2008.

Michael Günther
Chairman of the Supervisory Board

Corporate Governance Code Compliance Statement

HT - Hrvatske telekomunikacije d.d. (hereinafter referred to as "the Company") has, in accordance with Article 250b, paragraph 4 of the Companies Act ("Official Gazette" No. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07 and 146/08), prepared the Annual Report of the Management Board on the Status and Business Operations of the Company and the T-HT Group for the Business Year 2008 consisting of the Annual Report on the Status and Business Operations of the Company and the Consolidated Annual Report on the Status and Business Operations of the Company (hereinafter referred to as "Annual Report").

The Company applies the Corporate Governance Code that was jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter referred to as "the Agency") and the Zagreb Stock Exchange Inc. Zagreb, and which was adopted by the Agency's Decision dated 26 April 2007 ("Official Gazette", No 46/07). The Code is published on the web-site of the Zagreb Stock Exchange (www.zse.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 publicly announce and update the complete list of shareholders with the number and class of shares they own because T-HT has more than 285,000 shareholders. The Company tracks its trading performance and number of shareholders on a weekly basis. The ownership structure is shown on the Company's website, while a detailed list of shareholders is maintained by the Central Depository Agency, which regularly publishes the list of the ten biggest shareholders on its website in accordance with the relevant regulations. The Company's website contains a link to the Central Depository Agency's web-site (Part 2.5.1. of the Code).
- The Company does not publish on its web pages records of securities issued by the Company that are owned by Members of the Supervisory Board or the Management Board of the Company. However, all dealings in the Company's shares that are undertaken by members of the Supervisory Board, members of the Management Board, persons closely related to them and other persons who have access to privileged information, are promptly reported to the relevant stock exchanges, the Croatian Financial Services Supervisory Agency and are also announced to the public on the Company's website (Part 2.5.3.).
- 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 3.1.1.7.).
- The date on which the shareholder becomes entitled to payment of dividend was not set as recommended by the Code. The dividend date was set as the date of the holding of the General Assembly at which the decision on dividend payment was passed, as in accordance with the Companies Act (Part 3.1.3.2.)
- The Company sets the conditions for participation at the General Assembly in accordance with the Companies Act and the Company's Articles of Association (Part 3.1.5.).
- 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 3.1.8.).
- The Supervisory Board is not composed mostly of independent members. Only two out of nine Supervisory Board members are independent members (Part 3.2.2.).
- The Company does not have a long-term succession plan. The Company has introduced a number of Human Resources projects including management assessment through performance reviews, with related training and development activities. Upon their full implementation, a meaningful long-term succession plan can be developed (Part 3.2.3.).
- 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 efficiency of the Company (Part 3.2.5.).
- 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 3.2.11.1. and 3.2.11.2.).

- 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 (Part 3.2.11.3.).
- The Supervisory Board did not prepare an evaluation of its work in the past period (Part 3.2.15.).
- The remuneration strategy adopted for Management Board and Supervisory Board members is based on Deutsche Telekom's Guidelines, adapted for local needs. The Statement of the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The remuneration of the Management Board and the Supervisory Board are disclosed within the Annual Report (Part 3.3.3.).
- The remuneration paid to the independent external auditors for the audit and other services rendered is disclosed within the Annual financial statements (Part 4.1.).

Internal Control and Risk Management

The Audit Committee of the Supervisory Board of the Company was established in April 2002. The Audit Committee's principal responsibilities are the preparation of the decisions of the Supervisory Board of the Company and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within the Company. Revisions to the Audit Committee's term of reference were adopted in November 2006, amended in 2008 and adjusted in accordance with the Sarbanes Oxley Act and the Croatian Audit Act. 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.

In executing its activities, 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 fulfilment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent monitoring function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). Implementation of the annual Audit Program contributes to the minimization of risks and the improvement of operational efficiency. In February 2006, latest amended in February 2008, the Management Board adopted the Audit Manual of the Corporate Internal Audit of the Company.

The Financial Reporting Audit ensures the reliability of the Company's financial reporting by:

- Identifying risks and fields of improvement,
- Performing audits of areas of risk,
- Monitoring implementation of the audit measures and, if necessary, escalation of problems,
- Providing support in TOP projects in a way that would not conflict with the principles of objectivity and independence,
- Conducting ad hoc audits upon management request.

Significant Company Shareholders

The majority owner of the Company is Deutsche Telekom, with 51 per cent of shares. The Republic of Croatia owns 3.6 per cent of shares. After the IPO, and following the sale of shares to present and former employees of the Company and Croatian Post in June 2008, and upon transfer of bonus shares to Croatian citizens as planned at the time of the IPO, the Government of the Republic of Croatia reduced its holding from 9.5 per cent to 3.6 per cent. The War Veterans' Fund owns 7.0 per cent of shares, while 38.4 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.
The President of the Management Board of HT - Hrvatske telekomunikacije d.d., Mr. Ivica Mudrinić,

owns 4,569 shares in total; Mr. Jürgen P. Czapran, MB Member, owns 185 shares in total; Mrs. Branka Skaramuča, MB Member, owns 200 shares in total; Mrs. Irena Jolić Šimović, MB Member, owns 45 shares in total; Mr. Josip Pupić, Supervisory Board Member, owns 1,069 shares in total and Mr. Ivica Mišetić, Ph.D., deputy Chairman of the Supervisory Board, owns 63 shares in total.

Appointment of the Management Board, its functions and the Amendments to the Article 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. Pursuant to the Company's Articles of Association, the Management Board consists of between five and seven members. Currently the Management Board has six members: the President of the Management Board; MB Member and Chief Operating Officer Fixed and Broadband (COO T-Com); MB Member and Chief Technical Chief Information Officer Group (CTO/CIO Group); MB Member and Chief Human Resources Officer (CHRO); MB Member and Chief Operating Officer Mobile (COO Mobile) and MB Member and Chief Financial Officer (CFO).
The Management Board needs prior approval from the Supervisory Board if it wishes to propose any amendments to the Articles of Association at the Annual 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.
Under the Articles of Association, the Company may be represented by any of two members of the Management Board.

The composition and functions of the Supervisory Board

Pursuant to the Company's Articles of Association, the Supervisory Board consists of nine members. Eight members are appointed by the General Assembly and one by 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 establishes the Compensation and Nomination Committee and the Audit Committee.

Business Review 2008

Croatian Telecommunication Market Overview
Regulatory Environment
Group's Strategy
Organization of the Group
T-Com
T-Mobile
Network and information Technologies
Human Resources

Croatian Telecommunication Market Overview

Another successful year for T-HT Group

Despite competition intensifying in 2008 across all Croatian telecommunications market segments, T-HT successfully maintained its leadership in a fully-liberalized telecommunications market worth more than 15 billion kunas.

The most important market trends of 2007 remained significant throughout 2008: strong growth in broadband, increasing demand for Internet content, interactive television on the rise, continued decline in fixed telephony, mobile penetration approaching maturity and mobile data services picking up steam.

For T-HT and Croatian telecommunications market, 2008 had a number of important events:

- In February 2008, wholesale bitstream offer became available marking another important step in the telecommunications market liberalisation.
- In June 2008, the national roaming agreement between T-Mobile, the leading mobile operator, and Tele2, Croatia's third mobile operator, became effective.
- In July 2008 the new Electronic Communications Act, passed by the Croatian Parliament in June 2008, went into force, reflecting recommendations and directives accepted by the European Commission.
- In October 2008, MAXtv, the Company's IPTV service, celebrated its 100,000th customer to become one of the most successful IPTV launches in Europe.
- In November 2008, T-Mobile Croatia introduced Apple's revolutionary iPhone 3G, heralding a new, data-rich era for Croatian mobile users.

Macroeconomic environment - 2008 Croatian financial system stable

Despite the onset of the global financial crisis, due to the strict monetary policy led by the Croatian National Bank, the country's financial system in 2008 has proven to be stable. The Croatian economy continued to grow, although real GDP growth has slowed from 5.7% in 2007 to an estimated 3.8% - 4.0% in 2008, as a result of the global economic slowdown and its impact on our European neighbours. The rise in inflation from 2.9% in 2007 to an estimated 6.2% in 2008 was caused primarily by increased food and oil prices.

Croatia's unemployment rate has decreased steadily from 16.1% in 2000 down to 9.4% in the middle of 2008. Exchange rates remained stable and tourism has continued to grow with the total number of visitors exceeding 11 million for the second consecutive year.

Fixed-line telephony market - declining as expected, but T-HT retains strong market position with high quality of service, rich portfolio and tailored offerings.

In a highly competitive market, T-HT Group maintained its leadership position with market share around 82%. This success is based on the Group's continuing dedication to high-quality service, strengthening of sales channels and the creation of tailored offers to suit the needs of specific customer segments.

Despite the continued and expected decrease in total fixed-voice minutes, the fixed-line market remains strong without a significant drop in total mainlines. Overall fixed telephony market is declining in line with other European markets.

Following the merger of two alternative operators in 2008, nine operators are now active in the fixed-telephony segment of the Croatian market with no new operators entering the market in 2008. One of the largest alternative operators announced its intention to focus solely on business customers while others continued their core network roll-out, mainly in four largest cities. The largest mobile competitor launched its prepaid fixed line service.

Mobile telecommunications - T-Mobile maintains leadership in a maturing market, ushers in a new era of mobile internet with Apple iPhone 3G.

T-Mobile remains the leader in a market that continues to grow and mature, with mobile penetration of an estimated 132.1% served by three operators since 2005. According to the Croatian Central Bureau of Statistics, total Croatian mobile market minutes increased by 14% (from 4,985 million in 2007 to 5,704 million minutes in 2008).

In an important step, T-Mobile signed a national roaming agreement with Tele2, the third mobile operator in Croatia, which became effective in June 2008.

Mobile internet was the theme of 2008, with all the leading operators promoting their prepaid and postpaid mobile broadband offerings to encourage consumers to move beyond simple text messaging and begin using more mobile content, data and applications.

Internet - T-HT consolidates strong position in expanding broadband market; MAXtv proves a big success.

T-HT Group is by far the biggest provider of broadband services in Croatia, continuing to expand the roll out of its high-speed MAXadsl offering and augmenting it with premium services such as MAXtv - the Group's IPTV service. At the end of the year the Group had 472,653 of ADSL customers, up from 344,925 in 2007, representing a market share of 87%.

Despite this strong increase in subscriber numbers, Croatia's broadband market remains a significant growth opportunity for T-HT, with just 30% of Croatian households connected via broadband compared to an average of 55% in Western Europe. T-Com is active in the broadband market.

In October 2008, T-HT signed its 100,000th MAXtv customer. By the end of 2008 this number increased to 136 thousand customers, establishing T-HT as the leading player in the Croatian pay-TV market in just two years.

Data - Successful migration to IP-based services; quality of service secures T-HT's leading position.

T-HT has maintained its leadership of a market that is migrating from traditional unmanaged data services to lower-cost, IP-based services that are less complex to manage require less investment and are therefore more cost effective for both the Group and end-users.

Croatia's data market is small in comparison with other segments representing less than 2% of total Croatian market revenues. However, data products it represents a significant offering to help T-HT retain and acquire business customers.

The Group's main data service competitors continued to develop their own fibre networks targeting business and public segments.

Wholesale - Domestic and international competition; T-HT remains the largest player with the most extensive network coverage.

In 2008, the Government of the Republic of Croatia encouraged companies with state-owned infrastructure to commercially offer their available infrastructure capacities to all operators. In addition to local loop unbundling, which is available since 2006, bitstream, or provision of broadband Internet access services was offered in 2008. It enables competitors to offer their own broadband products to consumers even if they do not operate the local loop.

T-HT Group has established interconnection with all mobile-network operators and fixed-network operators in Croatia.

T-HT provides wholesale services to four major customer segments: international operators, mobile operators, fixed operators and a variety of different companies including VAS providers, ISPs and VoIP service providers.

In 2008, in terms of total market revenues, the overall Croatian wholesale market remained stable. As the market liberalisation continued number of ULL (unbundled local loop) customers increased from 29,773 in 2007 to 87,072 in 2008.

Regulatory Environment

On July 1st, 2008, the new Law on Electronic Communications came into force, replacing the previous Law on Telecommunications. The current Croatian regulatory regime transposes the 2002 EU New Regulatory Framework onto Croatia's electronic communications market.

In accordance with the new Law on Electronic Communications, the Croatian National Regulatory Authority - the Croatian Agency for Post and Electronic Communications (the "Agency") - is authorized to pass subordinate legislation. Thus, its authority encompasses aspects of telecommunications including duct and infrastructure issues, right-of-way fees, conditions of service provisioning, universal services, and the prevention of fraud and abuse.

In second half of 2008 several Ordinances were available for public consultation. From the Group's perspective some of the most important are: Ordinance on the joint use of the electronic communications infrastructure and related equipment; Ordinance on the conditions for providing and quality parameters of electronic communications services; Ordinance on the certificate and the fee for the right of way; Ordinance on numbering, addresses and radiofrequencies fees (RF); and Ordinance on the Agency's fees. The Ordinance on the conditions of the usage and allocation of RF spectrum and Table of usage RF spectrum came into force at the beginning of December 2008.

In parallel, the Agency is undertaking a new round of market analyses pursuant to the latest EU Recommendation on Relevant Markets, of 17 December 2007. Until a new market analysis is finalized, designations of significant market power (SMP status) and accompanying remedies/obligations based on the old Law on Telecommunications will remain applicable. Following the new market analyses and depending on its outcomes, current remedies will cease to apply, whereas new remedies will be imposed by a decision of the Agency pursuant to the new Law on Electronic Communications.

Since 2002 the Company has held SMP (significant market power) status in the market for fixed public voice, the market for leased lines, the market for interconnection and the market for voice and data transmission. In 2007 the Company's subsidiary Iskon Internet was designated as holding joint significant market power with the Company in the market for fixed public voice and the market for voice and data transmission.

Since 2005 T-Mobile has been designated as an SMP operator in the interconnection market and in the market for public voice services on mobile networks. The SMP status of the Company, T-Mobile and Iskon in these markets was reiterated by the Agency's publication of a list of SMP operators in December 2007.

As a consequence, the Company, Iskon and T-Mobile are subject to ex-ante sector-specific regulations in the markets where they are designated as SMP operators. Accordingly, the Company has to offer its competitors network access (including interconnection, unbundled access to the local loop, and bitstream access), as well as access to certain services and facilities on a non-discriminatory basis.

Furthermore, prices for all regulated wholesale products, as well as retail public voice pricing in the fixed network and leased lines of SMP operators, are subject to cost-orientation and ex-ante approval by the Agency, whereas other retail pricing is subject to ex-post review. In addition, tariffs for universal services must be set at an "affordable level". Other tariffs are essentially unregulated. In particular, the retail prices of T-Mobile are not subject to ex-ante approval by the Agency.

Also, operators with SMP status are obliged to maintain separate cost accounting systems with regard to services on those markets where they hold SMP status. This obligation is designed to ensure transparency with respect to various telecommunications services, in order to prevent cross-subsidization of services. For that reason, the Agency undertook an Accounting Separation and Cost Accounting project during 2008 and in December 2008 imposed an obligation on the Company to implement accounting separation on a CCA/LRIC model (Current Cost Accounting/Long Run Average Incremental Costs) basis until 2011. Consequently, the implementation of accounting separation is expected to provide Agency with a transparent view of the Company's cost structures.

The Company's Reference Unbundling Offer (RUO) for full and shared access to local loops was under revision by the Agency in January and in July 2008, which focused mainly on operational and costing issues related to the unbundling (such as air-conditioning, relocation of collocations, preparation of collocation rooms). In addition, with the Agency's participation, the Company has been working with FER (Faculty of Electrical Engineering and Computing) to produce a "Static Plan of Frequency Spectrum Management".

In June 2008 the Wholesale leased-lines offer of the Company was amended, introducing new categories for quantity discounts and discount specification. Since February 2008, the Company's bitstream (wholesale broadband access) offer has been available to Internet Service Providers (ISP), enabling them to offer a package of broadband access and Internet to customers.

In 2008 the Company launched special tariff package for customers with low income, whilst also maintaining its discount policy for customers with special social needs (people with disabilities, war veterans etc.).

In June 2008, the Reference Interconnection Offer (RIO) of T-Mobile was amended. In December 2008 the Agency started a revision of interconnection prices of the Company and T-Mobile. Since the validity of both RIOs of the Company and T-Mobile were to expire until the end of 2008, on December 23, 2008 the Agency passed a decision on prolongation of validity of both RIOs of until the end of the revision process.

The Company's and T-Mobile's Concession Agreements ceased to apply when the new Law on Electronic Communications came into force. However, authorizations granted for service provisioning are ensured under the new Law via a general authorization regime.

Group's Strategy

Overview of the main strategic directions

The Group's strategy is based on four main pillars:

1. Customer Focus
2. Maintain and Grow the business
3. Quality & Efficiency
4. Performance & Service-Driven Culture

1. Customer Focus - Listening to and learning from the customer.

The highest priority of the Group is to ensure that we meet the current and future needs of our customers with products and services of the highest quality.
All other business priorities are designed to support this goal.
Therefore, we are continuously working on new and innovative services customized to the specific needs of different customer segments, increasing the quality of our services and the simplicity of their use.

2. Maintain and Grow the business

These strategic priorities relate to:
- Protecting and strengthening the core business
- Continued strong growth of broadband - Fast Internet Always & Everywhere together with further positioning in media segment
- Exploring non-core development potentials
- Prudent evaluation of expansion opportunities

Protecting the core business - Maintaining the leading position in all business segments

Protecting the existing business with tailor-made service packages and tariffs, competitive pricing, premium quality, attractive bundles and innovative services such as MAXtv remain strategic priorities for the Group.

Continued strong growth of broadband services - Fast Internet Always & Everywhere together with further positioning in media segment

As the market leader in both fixed and mobile telephony, growth opportunities for the Group in its traditional business segments are limited. The Group is therefore looking to the broadband and media segments as having the potential to provide growth opportunities for traditional telecommunications operators.

Therefore, the Group's growth strategy focuses on the expansion of broadband connections and IP-based services. By promoting the adoption of these services, the Group continues to ensure significant improvements in business customers' operations and in the way that residential customers communicate with each other and access and share multimedia content. Encouraged by the success of MAXtv and tportal, the Group's goal is to further strengthen its position in the media segment through continuing development of innovative products and services.

Exploring non-core development potentials

T-HT Group is looking to augment its leadership in core services with opportunities for growth in non-core segments. The first step will be strengthening of its integrated ICT solutions portfolio, which combines telecommunications and information technology services.

Prudent evaluation of expansion opportunities

The Group has been closely monitoring and evaluating developments in neighboring markets to identify potential growth opportunities. The Group's primary focus remains on developing the investments it has already acquired in Bosnia and Herzegovina.

3. Quality & Efficiency

Strategies to ensure quality and efficiency relate to:
- modernisation of fixed networks to enable all emerging services and ensure high quality of service
- constant improvement of key processes
- cost management to maintain best-in-class profit margins

Modernisation of fixed networks enabling all emerging services and ensuring high quality of service

The continuous improvement of customer satisfaction and the quality of our services requires investment in a new technical platform that will enable better, faster and even more reliable services for all our customers. In order to continue offering the most advanced communication and content services, we are investing in new access network to enable all future bandwidth-heavy services.

Constant improvement of customer-related processes

In order to increase customer satisfaction and improve their experience, the Group is dedicated to improving and simplifying key aspects of customer service and customer relationship management.

Cost management to maintain best-in-class profit margins

The Group is continuously improving the quality and efficiency of its operations by redesigning processes and analyzing and benchmarking its cost structure, while at the same time reviewing capital expenditure needs to support future growth opportunities. Together, these initiatives are intended to optimise Group operating costs and protect margins in an increasingly competitive environment.

4. Performance & Service Driven Culture

This set of priorities relates to:

- constant improvement of performance-driven culture
- building a superior service culture
- attracting and retaining a highly-skilled and motivated workforce

Constant improvement of performance-driven culture

Performance-based management is implemented across T-HT, with a commitment to Group-wide improvements every year. This is achieved by a regular review and realignment of corporate goals with a particular emphasis on encouraging a feedback culture within the Group.

Building superior service culture

The Group's strategic aim is to be valued by its customers as an organisation that constantly achieves a high standard of excellence in customer service. Therefore, a special project and initiatives have been designed in order to implement service improvements as learned from direct interaction with our customers.

Attracting and retaining highly qualified top class employees or staff

The telecoms industry faces dynamic technological changes and constant market challenges and so the development of skilled and service-oriented employees that understand customer needs and new technologies plays an integral role in building customer relationships and encouraging customer retention. Recognising that knowledge rapidly becomes obsolete and that service-focused employee is its key asset, the Group invests in education and training of staff as well as attracting best-in-class resources for the future.

Organization of the Group

Corporate Structure

The Company conducts its business through the T-Com business unit, T-Mobile and a number of other smaller subsidiaries.

Organisational Structure

Group

The Group is headed by the Management Board, which governs the management of the Group's business operations and is responsible to the Supervisory Board for the overall business results and performance of the Group. The Supervisory Board supervises the management of the Group's business and is responsible to the shareholders for compliance with the legal framework in which the Group operates. For this purpose, the Audit Committee and the Special Unit for Compliance were established.

T-Com

T-Com is responsible for the Group's fixed network and its wholesale, Internet and data services. The T-Com business unit encompasses Iskon and KDS. Four corporate units of the Company are: the Corporate Unit of the President of the Management Board, Financial Corporate Unit, Group Technical/IT Corporate Unit and Human Resources Corporate Unit. The function of these corporate units is to provide Group management services and take advantage of the synergies between the fixed and mobile activities.

T-Com's core business is managed by Member of the Management Board and Chief Operating Officer Fixed and Broadband (COO T-Com). T-Com's core business is organised in sub-units lead by managers responsible for sales, finance, marketing, human resources, services and network systems and for the service management & network operations.

The geographical presence of T-Com is organised through a regional sales/regional management department and a regional network operations department. T-Com's regional presence in Croatia is organised into four geographic areas: Region North (headquartered in Zagreb), Region South (headquartered in Split), Region West (headquartered in Rijeka) and Region East (headquartered in Osijek).

T-Mobile

Unlike T-Com, the activities of T-Mobile are conducted through a separate legal entity, wholly owned by the Company. The business operations of T-Mobile are managed by the Member of the Management Board and Chief Operating Officer for Mobile of the Group, who is ex officio President of the T-Mobile management board. The T-Mobile management board has five other members: the Heads of Finance (CFO), Network and Information Technologies (CTO), Marketing (CMO), Sales and Services (CSO) and Human Resources (CHRO).

T-Com

Overview
Major Achievements in 2008

T-Com

Overview

The Croatian fixed-line market continued developing dynamically throughout 2008, a year in which:

- Market competition intensified
- T-Com confirmed its leadership position in all segments
- T-Com's ADSL maintained its dominance of the rapidly-growing broadband market, reaching 472,653 customers and remaining by far the most popular choice among Croatian Internet users
- MAXtv reached more than 135,000 customers, helped by the launch of a standalone MAXtv service that does not require a broadband subscription
- T-Com's Data services: Metro Ethernet showed respectable revenue growth
- T-Com's wholesale: despite domestic and international competition - remained the largest player with the most extensive network coverage
- T-Com continued with the offering of Net Phone Packages

Total revenue from T-Com decreased by 1.0% to HRK 5,198 million in 2008 (2007: HRK 5,249 million). The decrease in T-Com's revenue was primarily due to a decrease in fixed-telephony traffic caused by fixed-to-mobile substitution and increased competition, which were partially offset by the improved performance of wholesale services and a significant increase in revenue from Internet services, particularly ADSL and IPTV.

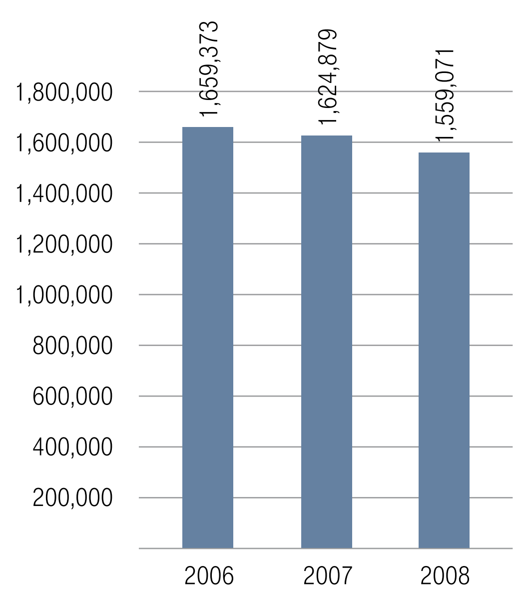
Major Achievements in 2008

Fixed telephony

T-Com continued to hold its market-leading position with 1.56 million fixed telephones mainlines at the end of 2008, 4.1% less than at the end of 2007. The number of access mainlines provided by T-Com has declined as a result of mobile substitution and increasing competition in the fixed-line market, including direct access to competitors' newly built infrastructure and ULL.

As at 31st December 2008, 92.6% of mainlines were POTS and FGSM, 6.8% were ISDN and 0.6% were payphones. The migration from ISDN to POTS mainlines was mainly due to ADSL.

T-Com total mainlines



At the end of 2008, voice traffic for T-Com's retail fixed-line users was 10.5% less compared to 2007. The majority of fixed-line calls were national calls made to fixed and mobile networks.

In order to improve customer satisfaction, T-Com introduced several new tariff options for residential and business customers. For example, the "Mobitel" package offers cheaper calls to any mobile network in Croatia, while the "Business International" package offers cheaper calls to international fixed and mobile networks in Germany, Austria, Italy, Slovenia, Bosnia and Herzegovina and Serbia.

Additionally, T-Com continued the migration of users from Halo tariffs to the Super packages (Super 150 and Super 500 promos) in order to increase the value of fixed-line accounts, drive customers towards future flat-fee models and improve customer satisfaction, while at the same time improving T-Com revenues and decreasing customer churn.

In addition to more attractive pricing plans, T-Com's initiatives for customer retention and churn prevention were focused on improvements in customer service activities in the area of incoming and outgoing calls (better technical support and target marketing promotions including telesales). In 2008, the Customer Care services on 0800 numbers answered more than 5,500,000 incoming calls.

As part of its commitment to provide telecom services for all members of Croatian society, T-Com introduced a low-cost package for those receiving social welfare, with a monthly subscription of 30 HRK (excluding VAT).

Internet services

Internet services are provided through T-Com and Iskon. At the end of 2008, there are 472,653 ADSL customers, up 37.0% on 2007. This significant increase was achieved through a combination of attractive pricing and constant efforts to enrich multimedia content available to subscribers.

The Internet services offered by T-Com comprise Internet access (dial-up and broadband) and related traffic, IP VPN, IP Centrex (VoIP), IPTV, content and multimedia services including ASP and web hosting.

Efforts to improve customer satisfaction and increase customer retention included campaigns to promote migration towards higher speeds, three-month flat-pricing plans and other offers including laptops and WLAN modem on promotional price upgrades, antivirus offers and gadget offers.

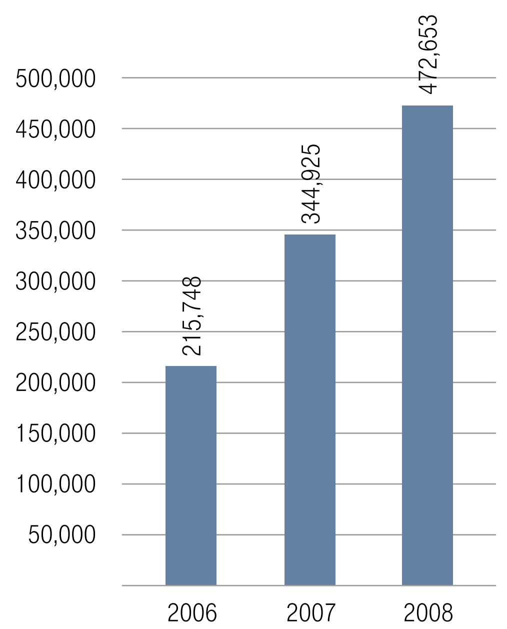
Revenue from internet services also improved as a result of promotional efforts related to our Net Phone product (VoIP), including free installation for new customers.

In 2008 T-Com continued to migrate traditional data customers to newer data services, resulting with a 73.2% increase in IP VPN subscribers compared to last year. To align its offer with the MAXadsl business offer T-Com introduced revised pricing for NetPro and VPN services.

At Iskon, 2008 was a year of expansion with growth in total net revenues, driven by a doubling in broadband revenues and growth in the ULL customer base.

Iskon was the first company in Croatia to launch bitstream-based services, allowing it to serve customers nationwide. During 2008, it also expanded its own network infrastructure and increased its household coverage. Iskon also offered several business and residential duo packages (with broadband internet and phone) and signed contracts with CARnet to provide a special duo package for CARnet users (students and employees in Croatian higher education and research institutions).

T-Com ADSL users



MAXtv

On December 31st, 2008, T-Com had 135,573 MAXtv customers, representing 210.0% increase on December 2007 (43,734 customers). We attribute this success to a combination of premium content, product innovation and Try and Buy concept, which entitles customers to a three-month trial period.

Premium content packages offered exclusive channels & programs including HBO, HBO Comedy, HBO on demand and an increasing number of Video on Demand titles from major studios including MGM, Paramount and NBC.

MAXtv product innovation included the introduction of high-definition TV with up to seven HD channels, as well as other innovations including Web-based and SMS-based recording tools for MAXtv.

In 2008 T-Com also launched a standalone MAXtv service to expand its reach to customers who might not initially want a broadband subscription as well.

At the end of 2008 MAXtv Digiteka project was introduced in collaboration with the Croatian state archives, Jadran film and Croatia film. The aim of Digiteka is to digitize classic Croatian films so that titles from the early days of Croatian cinema will be preserved in digital form and offered in high definition, free to MAXtv subscribers for the first six months.

tportal.hr

In 2008 tportal.hr maintained its position as the largest Croatian news portal, with market share up to 47.1% according to Gemius, an independent Internet traffic research agency. With more than 40 content sections and online services, tportal.hr also features a section for English-speaking users. Content is available through PDAs, mobile devices, SMS information alerts and T-Mobile WAP portal. In addition, T-Mobile iPhone users enjoy a customized interface when browsing tportal.
tportal.hr features number of celebrity bloggers and wealth of in-house produced video content such as very popular GameReport - a short video format that reviews latest computer games. Services like Fonoteka music download, Shopping, Playtoy and Webmail are just small fraction of what tportal has to offer.

Data services

In 2008, T-Com focused on the migration of customers from traditional data towards new services such as Metro Ethernet and IP VPN, supported by promotional efforts.
The number of lines provided by T-Com declined 10.6% in comparison to December 2007. Although T-Com faces competition in respect of both Metro Ethernet and IP VPN services, we believe T-Com's main advantages over its competitors are its network coverage and the quality of its service.

Retail sales channels

T-Com's sales organization comprises three centrally-headquartered sales departments: key and large business accounts, small and medium-sized business accounts and residential accounts. There are also four regional sales units with their headquarters in Zagreb, Split, Rijeka and Osijek.

For residential and home-office customers there are more than 50 T-Centres located in major Croatian cities which sell both T-Com and T-Mobile services. T-Com (including Iskon) also has a network of indirect partners using the 'shop within a shop' concept, as well as telesales and web sales.

During 2008, T-Com and T-Mobile retail sales efforts benefited from an efficient joint-sales channel structure that includes the sharing of resources between T-Com and T-Mobile. This joint approach has a number of benefits, including:

- providing a single face to the customer ;
- offering a uniformly high level of service to all customers; and
- cost optimization.

The impact of the "One Face to the Customer" project and joint T-Com and T-Mobile sales initiatives is to promote combined marketing to customers on residential accounts, key accounts and business sales. This is being achieved by:

- an enhanced focus on customer needs
- explaining the benefits and synergies of the joint offering
- improving the sales process by unifying sales offerings and improving service at the point of sale
- enhancing the quality of every customer experience through better service at all points of sale

Wholesale

T-HT provides wholesale services to four major customer segments: international operators, mobile operators, fixed operators and a variety of different service providers (such as VAS providers, ISPs and VoIP service providers).

Wholesale revenue increased by 6.8% from HRK 1,082 million in 2007 to HRK 1,155 million in 2008, which represents 22.2% of T-Com's total revenue. Growth was primarily driven by continued market liberalization, the introduction of new services and increased hubbing traffic. Continuing deregulation in Croatia promoted further growth of interconnection revenues.

Domestic wholesale market

In 2008, there was further growth of the interconnection market based on the variety of services and the volume of their usage, although not at the same pace as in the previous year. The strategic focus of operators on ULL (Unbundled Local Loop) was still evident in 2008, resulting in an increase in number portability and stagnation in the number of active carrier pre-select (CPS) customers compared to previous years, due to the migration of former CPS customers to ULL services.

The main activities of the Wholesale business in 2008 were related to the activation of new ULLs and the delivery of additional locations for co-location purposes. Beside co-location for ULL purposes (441 locations), a further 27 locations were prepared for co-location for the purpose of leased lines interconnection. The number of delivered ULLs at the end of 2008 increased to 87,072 and growth in the ULL customer base also promoted an increase in interconnection traffic.

The Value Added Services (VAS) market stagnated in year 2008 because of changes in the legal environment related to TV games, which were the main revenue driver in VAS market during 2007.

The Data / Capacity market remained stable through 2008 in spite of strong competition and lower margins. Mobile operators remain the biggest capacity consumers due to the growth of mobile broadband networks and increasing fixed-to-mobile substitution.

International wholesale market

Even with strengthened domestic competition and the increased activities of foreign operators in the market, 2008 was a successful year for T-Com wholesale international market. This succes can be attributed to the reliability and quality of T-Com's networks, compared to new entrants on the market. T-Com flexible interconnection policy resulted in an increase in the number of international interconnections from 42 in 2007 to 47 in 2008. The volume of traffic terminated at international destinations via T-Com wholesale increased around 55% in 2008, as a result of increased sales activities and strengthening of T-Com's position in the regional market.
T-Com's position in the international market was improved by the implementation of new border crossings and upgrades to existing border crossings and a virtual point of presence (PoP) in Vienna.

A decline in Internet upstream costs and further network expansion strengthened the competitive position of T-Com in both the domestic and international markets.

T-Mobile

Overview
Major Achievements in 2008

T-Mobile

Overview

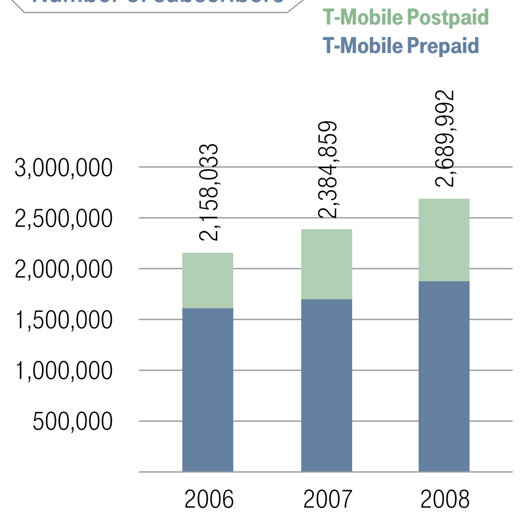
For T-Mobile, 2008 was a successful year in which it:

- Increased revenue by 6.1% to HRK 4,430 million, driven mainly by increased service revenue
- Confirmed its leadership of the competitive Croatian mobile communications market
- Reached nearly 2.7 million subscribers, up 12.8% on 2007, and representing a market share of 45.9% by subscribers
- Launched a national roaming agreement with Tele2, in June 2008
- Launched an attractive range of new products (e.g. Simpa Mix, Simpa Internet, Flex Obitelj 200, etc.) and pricing options (e.g. Option Tulum, Option Long Call, etc.)
- Launched the Apple iPhone - the world's most exciting handset - in Croatia

Major Achievements in 2008

During 2008, mobile penetration in the Republic of Croatia increased from 113.4 % at the end of 2007, to 132.1% at the end of 2008.
T-Mobile maintained its market-leading position with a 45.9% share of SIMs (2007: 47.4%). At the end of 2008, T-Mobile had 810,615 postpaid customers (2007: 684,817) and 1,879,377 prepaid customers (2007: 1,700,042). Through a series of successful marketing campaigns aimed at converting prepaid customers to postpaid accounts, T-Mobile's share of postpaid in total customer base rose from 28.7% to 30.1% during 2008.

Number of subscribers



Products and Services

There were several developments in the Croatian mobile market in 2008. T-Mobile offered an attractive range of new products that were created to meet the specific needs of different customer segments.

One of the most exciting developments was the launch of Apple's revolutionary iPhone exclusively on T-Mobile, with three new tariffs designed to fit the voice and data needs of iPhone customers.

In addition, T-Mobile launched a "hybrid" offer, Simpa Mix, to give postpaid customers a greater control of costs by offering to a customer an option to plan mobile budget. For families, the already-successful Flex Obitelj tariff was enhanced by the new Flex Obitelj 200 package. Prepaid customers benefited from their own promotional offers including Option Tulum, Option SMS/MMS and Option Long Call.

T-Mobile also improved its prepaid mobile data offering by introducing Simpa Internet - a full-connectivity Internet package that enables customers to access the internet wherever they are. Supported by excellent hardware portfolio and cost controls, Simpa Internet has raised the game for mobile internet in Croatia.

For business customers, the success of T-Mobile's existing "Ured za van" package of voice, data and attractive handsets prepared the way for a new and unique business package, Ured za van 5000, where the entire credit can be spent by the tariff principal and his/her employees on voice and data services. In addition, the popular "Flex Team" offer continued to dominate business voice packages.

Delivering the Group's commitment to "customer centricity", T-Club was launched as a joint loyalty program of T-Mobile and T-Com, enhancing the loyalty and retention programmes of both businesses.

Sales Developments

Despite SIM penetration reaching 132.1% in Croatia, T-Mobile managed to improve sales as a result of initiatives to improve customer service and make products more accessible to buyers.

Major achievements in Sales were:

- Enhancement of the own-retail network by opening new T-Centers and the refurbishment or relocation of some existing retail outlets
- Enhancement of the indirect-partners network through deeper market coverage and harmonization of the product portfolio
- Introduction of new sales channels to be even closer to the customer (for example, stands in selected shopping malls)
- Further automation and simplification of all sales processes
- Intensive education of the sales force with the maximum focus on customers and their needs
- Targeted approaches to meet the needs of customers in different business segments, supported by specialist sales channels and consultancy services
- Enhancement of sales for residential and home-office customers - in major Croatian cities there are more than 50 T-Centres which sell both T-Com and T-Mobile services

Network and Information Technologies

T-Com

Network and Service Platforms are the underlying infrastructure of T-Com and the backbone that supports all the services we offer. We strongly believe that a flexible, reliable and cost efficient infrastructure, which we try to achieve through standardization of platforms and processes, provides a solid foundation upon which to build high levels of customer satisfaction.

In 2008, the focus of our work on access network, the core network and service platform has been concentrated on the following activities:

- Implementation of new and innovative solutions on T-Com's IPTV platform, including MAXtv Video Archive, Snimalica (video recording), MAXtv High Definition;
- Increasing backbone capacity by extending our fiber optic backbone network,
- Upgrading of IP network in order to cope with increased demand for internet services, especially the high-bandwidth requirements of our IPTV service, MAXtv
- Commencing of Accelerated Broadband Deployment Program by deploying the underlying fiber-optic infrastructure to support the substantial roll-out of FTTH/FTTB (fibre-to-the-home/fibre-to-the-building) based infrastructure;
- Roll-out of proven broadband infrastructure based on DSLAMs in order to fulfill current demands. Since Q3 2008, T-HT has used a third supplier of such infrastructure in accordance with its strategy of supplier diversity, which improves the delivery of services to T-HT and its customers
- Improvement of Quality of Service in terms of provisioning time, fault clearance process and stability of services. The impact of these process and technical improvements was already visible by the third quarter of the year and further improvements are continuing, in particular in the area of enhancing the quality of the IPTV service;
- Throughout these initiatives, the Sub-Unit for Telecommunication Infrastructure Services played a key role in supporting the strategic Group priorities of Accelerated Broadband Deployment Program, and in particular the roll-outs of FTTH/FTTB along with the DSLAM and the Ethernet aggregation upgrade. During the year, the Sub-Unit for Telecommunication Infrastructure Services gained ISO 9001:2008 certifications for quality management.

T-Mobile

Network quality was once again in the focus of T-Mobile activities in 2008. In order to achieve the strategic goals of T-HT Group and cope with a significant increase in both traffic and subscriber numbers, T-Mobile has continued to build out its wireless access network to support high-quality mobile voice and data services across the country. In the core network, most of T-Mobile's efforts have been towards the fulfillment of prerequisites to enable next-generation mobile network services (NGMN).

During 2008 T-Mobile continued with the consolidation of service platforms, increasing the availability and improving the quality of T-Mobile services, while at the same time reducing operating expenses.

In order to monitor the quality of its network more effectively, T-Mobile has also begun to implement the Netcool Umbrella system, which will centralize all network monitoring systems into one place. Furthermore, to improve data security, T-Mobile has implemented an Information Security Management System according to international standard ISO27001, with certification being received in January 2008.

Based on results of regular market research, T-Mobile is constantly working to improve the quality of its services and its network. T-Mobile collaborates with other members of the T-Mobile International group in the Adria region to jointly develop new services, share knowledge and experience, optimize costs and accelerate the roll-out of new products.
In order to better understand how T-Mobile customers perceive the T-Mobile network on an individual basis, and to try to solve their specific problems with a faster and more personalized approach, T-Mobile has begun the implementation of its Customer Experience Management (CEM) programme.

IT

Information Technology is one of the key business enablers in the telecommunications industry, especially in developing markets, supporting complex and innovative telecom services. In line with overall corporate strategic goals, the Sub-Unit for Information and Business Systems oversees activities in the consolidation, integration and optimization of the Group's information technology systems, as well as providing full operational support for daily business activities. The key strategic objective of the Sub-Unit for Information and Business Systems is to contribute to top line growth, while at the same time improving cost efficiency to enhance margins. In order to support new product development, the Sub-Unit for Information and Business Systems is implementing programs to decrease time to market and improve service quality, thus increasing customer satisfaction. Therefore, its main efforts are directed towards improving service delivery, responding to advanced customer and market intelligence, and integrating T-HT Group services.

In order to support Company strategic goals, the Sub-Unit for Information and Business Systems has supported many important projects, including: Documentation & Design System (DDS) project; Corporate CRM project; Integrated Information Systems Services management (IISSM) for T-HT Group; Business Project Management; Corporate Management Information System (CMIS); and POS (Point of sale) solutions.

In 2008 there were also several other project achievements, the main one being the successful implementation of voice billing and data services billing. As a result of that Geneva system for voice and data services is in the full commercial production. Furthermore, to support the analysis and management of customer information, the first phase (Sales & Marketing) of Data Warehouse project was completed.

Human Resources

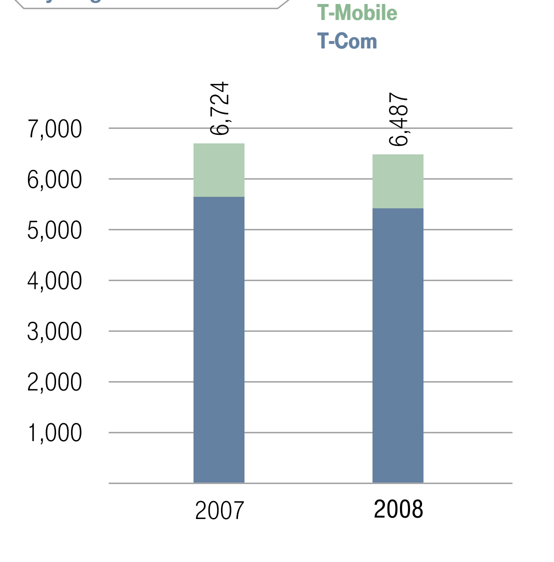
High-performance and efficient organization

The knowledge, skills and performance of our employees are the focus of a variety of HR projects and initiatives across T-HT Group. As a company that cares about professional development, and recognising that we operate in a competitive employment market, T-HT Group nurtures a corporate culture based upon constant improvements in efficiency and performance.

As a prerequisite for high performance at both an individual level and across the T-HT Group, new collective agreements were signed to ensure stability and contentment across both HT and T-Mobile. A new salary system has been introduced to enable flexibility and to align compensation with individual performance and competence.
Full implementation of the HR IT system, HR.net, was completed in 2008, to simplify and modernize administrative services by enabling self-service functions for employees and establishing a new level of support for managers in employee-facing roles.

The restructuring of the company continued in 2008 with the continuation of the headcount-optimization program, which resulted from essential organizational changes and the introduction of advanced technologies necessary to keep the Group competitive in a challenging and changing market.

Number of employees by segments



Investing in knowledge

T-HT strongly supports the systematic development of its employees with programs focused mainly on training in the areas of customer orientation, project management, communication, new markets and the telecommunications environment. In total, more than 3,000 employees and managers participated in 2008. To ensure continuous and cost-effective education facilities, the company rebuilt and re-opened the T-HT Training Centre.
Management training programs were mainly focused on the areas of leadership, service orientation and people-development skills.

Special attention has been given to the recruitment and induction of young professionals to support the development and implementation of new technologies and applications, thus creating a solid foundation for their further development.
The Six Sigma concept of improvement of business quality has been applied across T-Mobile to improve operational efficiency and customer satisfaction.

Closer to the customer

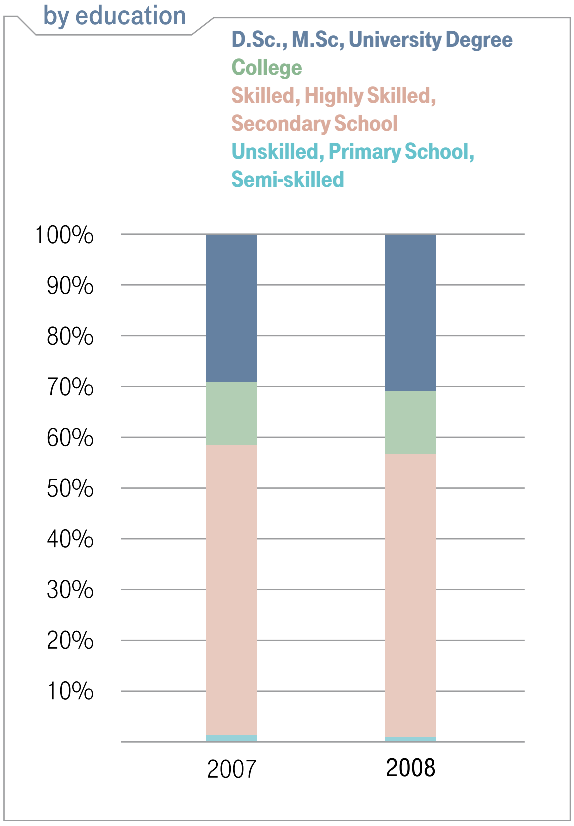
Development of a service-focused and customer-oriented organization is the major priority for the Group. In 2008, several projects were undertaken in support of this goal, including one called “Technician as Salesman”, with the goal to enable technical staff to sell T-HT products and services in the residential and SME market segments.

Following the successful implementation of the award-winning T-Mobile project “Closer to the Customer - Management at your Service” (1st prize on DT HR Global Conference in February 2008 and Croatian PR Association - Grand Prix for the best Internal Communication in June 2008) the program has been escalated to engage a higher level of management.

In 2008 HT began a project to give managers a better understanding of customers through direct contact in three key areas - T-Shops, technical field groups and customer care call centers. By the end of 2008, the top management level had successfully finished the program.

T-HT regularly conducts an Employee Survey as a means to improve the organisation. The 2008 Survey was based upon the achievement of high performance across the organization through the use of insights into two key indicators - engagement and service behavior - which influencing everything we do.

Employees by education



Corporate Social Responsibility

Donations and Sponsorships
Ecology

Corporate Social Responsibility

Corporate social responsibility is fully integrated in the long-term strategy of the T-HT Group.
T-HT regularly cooperates with educational, cultural and scientific institutions, with non-governmental organizations taking care of people with special needs, persons living in adverse conditions or people with health problems, and with organizations that promote civil society values. The sponsorship strategy of the Group is focused on cultural activities and sport, both on a corporate level and through the activities of its business units - T-Com and T-Mobile. In addition, T-HT Group has a well-elaborated policy of environmental protection as one of its strategic priorities

Donations and Sponsorships

The Group

T-HT has been UNICEF's leading partner in Croatia for the last four years, providing financial support for UNICEF projects as well as assistance in kind. The T-HT Group has paved the way for new forms of engagement of Croatian companies with charity organisations. Apart from financial aid, we provide the Group's know-how and technology to support charitable goals that are important for the whole of Croatian society. T-HT donates to UNICEF the production and distribution of appeals that are delivered, together with telephone bills, thus giving our customers a chance to donate funds to UNICEF projects.

One such project, designed to stop cyber bullying among children, is "Break the Chain!", organised by UNICEF in cooperation with the NGO Brave Telephone and with the participation of all three mobile operators in Croatia.

In addition, through tportal, T-HT teamed up with UNICEF and the Croatian national football team to raise money by auctioning a football autographed by the Croatian team and by UNICEF's most famous goodwill ambassador, David Beckham.

T-HT also donated HRK 100,000 to the Special Hospital for Chronic Diseases of Children in Gornja Bistra. The funds were raised through the internal auction of award-winning photographs taken by employees of the T-HT Group and from Group funds. These funds will help the hospital in Gornja Bistra to purchase a new and urgently needed ultrasound machine.

On the initiative of the Association Pet+, T-HT Group launched in cooperation with Europapress Holding and HRT, a charity campaign called „Depending On Us“. Its aim is to raise funds for the finalization of construction works on the Drug Treatment and Rehabilitation Community in the village of Orle near Velika Gorica. The required amount of HRK 3m will also cover the costs of the Center for the first year of work.

The Christmas campaign "Let's Give a Gift of Knowledge" was also launched by T-HT. The donation of more than 1.2 million kunas was earmarked for the realization of some twenty educational projects. In order to stress the importance of knowledge for the whole of Croatian society, T-HT has selected about twenty institutions or associations dealing with different age groups, ranging from pre-school children to seniors, as well as children and adults with special needs as well as seniors.

The exhibition, T-HTnagrada@msu.hr, is a unique partnership project of the Museum of Contemporary Art and T-Hrvatski Telekom, which donated the highest amount of money ever given by a national company to a Croatian museum for works of contemporary art. As many as 152 Croatian artists of all generations and with different approaches to contemporary visual expression participated in the 2008 competition „T-HTnagrada@msu.hr“.

T-Hrvatski Telekom also launched the project MAXtv Digiteka for the digitalization of film archives, in cooperation with Croatian State Archives, Croatian Film Archives, Jadran Film and the studio Vizije. The goal of the project is to preserve Croatia's rich film heritage in digital format. Two film classics were digitally processed in the first year: "Breza" directed by Ante Babaja and "Vuk samotnjak" by Obrad Gluščević. These films have become available on MAXtv's video-on-demand service, free of charge for the first six months, and the digital master has been donated to the Croatian Cinemateque.

In 2008 T-HT continued its longstanding tradition of sponsoring Croatian National Theaters in Osijek, Split and Rijeka as well as the City Drama Theater Gavella in Zagreb.

Furthermore, the employees of the T-HT Group collected Christmas gifts for children in hospitals and children's homes all over Croatia. More than 4,000 gifts were collected, giving joy to children who spent their holidays far from their families.

For a third successive year, T-HT's role in the competition "Together We Are Stronger" had employees proposing various projects, which in 2008 focused on science and education. Out of 230 applications received from all parts of Croatia 25 projects were selected and awarded funds totalling HRK 1,250,000. The goal of this unique competition, actively involving T-HT employees, was to ensure support for regional projects that deserve social recognition and support for their realization.

Apart from its larger charity initiatives, the Group provided financial support to a number of other commendable humanitarian projects including Croatian Caritas, Children's Hospital in Zagreb, the "Ana Rukavina" foundation and other humanitarian organizations and hospitals.

Also, as a part of such humanitarian actions a special telephone line was set up last year so that citizens can make donations by calling its number. Such actions emphasize the importance of the moment when the entire community is mobilized in order to help those with the greatest need.

T-HT has partnered Microsoft for the second year in a row in the "Imagine Cup", which gathers student and pupil teams from all over the world in the field of information and communications technology development. The theme of Imagine Cup 2008 was the development of solutions and content aimed at sustainable development and raising awareness about the importance of our responsibility towards nature.

Given the huge influence of sport on society as a whole, the Group continued as main sponsor its cooperation with the Croatian Olympic Committee in 2008, thus connecting the values of T-HT with the best traditions of the Olympic Movement: fair competition and the encouragement of young people to work hard in order to achieve their goals and become valuable community members.

On 1 October T-HT organized a successful conference with international speakers whose works and ideas inspire people around the world - the conductor and musical director of the Boston Philharmonic, Benjamin Zander, whose unique lecture combined music and management philosophy, and the founder of Wikipedia and Internet entrepreneur Jimmy Wales.

Last year T-HT supported the biggest technological conference in Croatia, WinDays 2008, the MIPRO conference, the 18th conference of the Zagreb Stock Exchange, the Vidi Web Top 100 competition and other events related to the telecommunications sector, economic development and the IT community. T-HT yet again provided leadership by supplying funds or infrastructure and equipment for a number of international and national forums and conferences.

T-Com

Following its strategy of sponsoring football, the most popular team sport in Croatia, T-Com continued its "I Love FooTball" campaign in order to ensure first-rate conditions for the development of football and to promote a sporting culture. In 2008, T-Com became a key partner of the Croatian national football team, in addition to its multi-year sponsorship of the Association of the First Croatian Football League and four First League football clubs (Dinamo, Hajduk, Osijek, Rijeka) within the project "I Love FooTball".

For the fourth successive year, T-Com launched the project KulTurist with the aim to popularize cultural events in Croatia and support their realization. The project name KulTurist refers to T-Com sponsorship of major cultural events. The Group has earmarked more than HRK 4m for the realization of the project in this year, including financial assistance and services.

The list of festivals which T-Com has sponsored in 2008 has been expanded and includes nine projects: the Vukovar Film Festival, Pula Film Festival, Split Summer, Libertas Film Festival, International Small Scenes Festival in Rijeka, Zagrebdox (festival of documentary films), the International Children's Festival Šibenik and Cest is d'Best. T-Com also continues to support Ulysses Theater.

T-Com's Internet portal tportal.hr established the most lucrative literary prize in Croatia, worth HRK 100,000. The literary prize "roman@tportal.hr" was awarded to the writer of the best Croatian novel published in 2007 - "Anastasia", by Dalibor Šimpraga.

As the leading provider of telecommunications services in Croatia, T-Com has provided children's homes with free MAXadsl broadband, personal computers for Internet access and free viewing of TV programs via MAXtv. The donation includes 17 children's homes and their regional branches throughout the country. MAXtv and MAXadsl have been donated for a two-year period at children's homes in 29 locations. The donation amounts to more than HRK 250,000 in total and it is intended to become a long-term project in which children's homes would be permanently exempted from payment for broadband Internet services and interactive digital television.

T-Mobile

In line with its social responsibility and the idea that efficient communication helps to protect and save human lives, T-Mobile continued its support to the institutions of medical emergency service. Therefore, T-Mobile donated ambulance medical equipment, each worth HRK 300,000, to the emergency institutions in Split, Varaždin and Pula. In addition, T-Mobile donated a vital-functions monitor to the Split Medical Emergency Service.

T-Mobile and Nina Badrić, a popular Croatian singer, donated HRK 55,000 to the Center for Autism in Zagreb, raised at her charity concert held on 9 February at the Zagreb Hypo Center, with T-Mobile as the general sponsor.

T-Mobile actively supported sailing through its sponsorship of two prestigious regattas, namely the Easter Regatta and the Mrduja Regatta. It was the general sponsor of Open Championship of Croatia in the Optimist Class (T-Mobile Sailing League 13), sponsor of the ACY Match Race 2008 Regatta and sponsor of the Cro-a-sail Team. T-Mobile is also a personal sponsor of the yachtsman Ivan Kljaković Gašpić Bambi, the Croatian champion in the Finn class.

More than 50 new bands played in Minival, a demo festival sponsored by T-Mobile, twice in 2008. Concerts were organised in Zagreb, Split, Osijek and Rijeka.

T-Mobile sponsored the album of Luka Nižetić "For a Moment and Forever" and released it exclusively on the Sony Ericsson W350i phone, in addition to sponsoring his tour.

Ecology

Care for the environment remains a priority for T-HT as evidenced by constant improvements and the fact that green criteria are included in key business processes.

Waste management, which is one of the Group's most significant environmental responsibilities, is conducted in the manner prescribed by law while also observing a hierarchy that gives priority to waste prevention, followed by separate collection of waste for the purpose of recycling, and proper waste disposal by authorized waste-collection companies. A large number of containers have been placed in the Company for the purpose of separate collection of different waste types including paper, PET bottles, toner cartridges, used batteries and small EE equipment and fittings. Containers have been placed at several appropriately chosen Group locations across Croatia for disposal of old engine oil, antifreeze, oil packages and collection of fluorescent tubes and accumulators. When customers buy new terminal equipment, T-Centers offer the possibility to leave their old terminal equipment free of charge.

Last year we intensified the activities related to landscaping the areas that surround the Company's buildings. Neglected trees were pruned, old trees were removed and new ones planted on some locations adjoining public areas.

T-HT has also proved its social responsibility through the projects „Green Communication“ and „Together We Are Stronger“, realized in the last year. Green Communication is an ecological project under which twenty hectares of forest land in total were afforested, in cooperation with Hrvatske šume (Croatian Forests). Group employees participated in the project through voluntary work. The respective areas were afforested with common oak and black pine on four different locations in Croatia. The total value of the project is HRK 500,000.

Unlike "Green Communication", which was conceived as a purely ecological project, donations were awarded under the project Together We Are Stronger to projects in different areas, four of them dealing with ecological issues. The Society of Natural Sciences Drava, from Virovitica, was granted financial support for realization of a project of monitoring the population of bank swallows and white-tailed eagles in the area of the river Drava. The Institute of Oceanography and Fisheries in Split was granted financial support for a scientific research project to identify the time of retention of E. coli, as an indicator of sea pollution. The Faculty of Philosophy in Split was granted financial support for philological and anthropological research of Adriatic culture and for preparation of the Virtual Maritime Museum Adriatika. The Eco Center Caput Insulae Beli in Rijeka was granted financial support for a research and education center for the protection of nature, particularly Griffon Vultures. The total value of the four ecological projects related to the action Together We Are Stronger amounted to HRK 320,000.

Significant progress has been made in the segment of T-HT's car fleet which mainly consists of diesel-driven vehicles and which has been significantly renewed in recent years through purchase of new cars with a better CO2 emission factor. As gas is the most ecologically friendly fuel, 220 gas-driven new cars were purchased last year, which represents approximately 15% of the total number of cars in the fleet. In addition, a fleet management system has been put into operation.

In the area of environmental protection, T-Mobile systematically surpasses legal requirements by maintaining the ISO 14001 system of environmental management, which was introduced in 2002. It obliges the Group to develop ecological awareness both among its employees and the wider public. Recertification of the system was conducted by an authorized certification firm in September 2008, when it was proved once again that the employees of T-Mobile have a high level of ecological awareness and that environmental protection is deeply embedded in their everyday work. After a successfully conducted assessment the validity of the certificate was extended for a further three-year period.

As a socially responsible telecommunications company, T-Mobile supports and encourages thorough and in-depth scientific research into the effects of electromagnetic radiation and keeps track of research published a number organizations, independent groups, expert teams and scientists. As for protection from electromagnetic fields, T-Mobile complies with the Regulations on Protection from Electromagnetic Fields, passed by the Ministry of Health and Social Welfare.


Africa
Americas
Asia-Pacific
Europe
Middle East
South Asia

Financial Review Year 2008

Financial Review Year 2008

Consolidated Revenue

Total consolidated revenue increased by 2.7% to HRK 8,816 million in 2008 from 8,580 million in 2007 driven primarily by growth in revenues from internet services, wholesale services and mobile telephony.

Consolidated Operating Expenses

Total consolidated operating expenses before depreciation and amortization increased by 5.0% to HRK 5,125 million, (2007: HRK 4,883 million). This was mainly the result of increases in merchandise, material and energy expenses and services expenses which were partially offset by a lower write down of current assets and employee benefits expenses.

Merchandise, material and energy expenses

The cost of merchandise, material and energy increased by 27.5% to HRK 1,105 million (2007: HRK 867 million). This was mainly due to an increase in the cost of modems and terminal equipment for internet services such as ADSL and IPTV and also the cost of mobile merchandise sold through direct and indirect channels.

Services expenses

Services expenses increased by 15.8% to HRK 1,357 million (2007: HRK 1,172 million) due to higher domestic interconnection services and international telecommunications services. This increase was partially offset by a decrease in cleaning services related to the outsourcing of such services.

Other expenses

Other expenses decreased by 1.9% to HRK 1,525 million (2007: HRK 1,555 million) mainly due to decrease in maintenance services and consulting fees.

Employee benefits expenses

Total employee benefits expenses, before exceptional items related to redundancy costs, decreased by 3.3% to HRK 1,157 million from HRK 1,197 million in 2007. This is the result of T-HT's ongoing headcount reduction programme.

In Q4 2008 provisions of HRK 45 million were made for redundancy versus HRK 79 million in 2007. Consequently, employee benefits expenses after exceptional items decreased by 5.8% to HRK 1,202 million (2007: HRK 1,276 million). As at 31 December 2008, the Group had 6,487 employees compared to 6,724 employees at 31 December 2007.

Work performed by the Group and capitalized

Work performed by the Group and capitalized increased by 11.0% to HRK 159 million in 2008 (2007: HRK 143 million). This is a result of higher capitalization of provisioning services for new customers and higher Capex realization than in 2007.

Write-down of current assets

The write-down of current assets decreased by 39.1% to HRK 95 million (2007: HRK 156 million), mainly due to an improvement in collection activities of receivables.

Depreciation and amortization

Depreciation and amortization decreased by 1.2% from HRK million 1,362 in 2007 to HRK 1,346 million in 2008 as a result of lower depreciation for IN platforms, the majority of which were fully depreciated in 2007. This decrease was leveled out by increased investments in the fixed network.

T-HT Group Profitability

EBITDA

EBITDA (before exceptional items) decreased by 1.0% to HRK 4,009 million (2007: HRK 4,050 million) as a result of operating expenses increasing slightly faster than revenues.

Exceptional items

There were HRK 45 million of exceptional items, related to provisions for redundancy costs. In 2007, there were HRK 95 million of exceptional items, consisting of HRK 79 million of provisions related to redundancy costs and HRK 16 million related to IPO costs.

Operating profit (EBIT)

Consolidated operating profit increased by 3.3% to HRK 2,602 million (2007: HRK 2,519 million). This was mainly due to a decrease in redundancy costs and a decrease in the impairment of non-current assets in 2008.

Net profit

Consolidated net profit decreased by 6.6% to HRK 2,310 million in 2008, from HRK 2,473 million in 2007. This decrease is primarily the result of lower income from equity-accounted investments relating to the Group's investment in HT Mostar d.o.o., following one-off profits of HRK 235 million in 2007.
Excluding these one off profits, consolidated net profit would have been higher by 3.2% at HRK 2,310 million, compared with HRK 2,238 million in 2007.

Financial Position

Balance Sheet

The total value of assets decreased by 0.7% to HRK 15,179 million (2007: HRK 15,292 million), mainly as a result of decrease in current assets (cash and cash equivalents and time deposits) related to the dividend payment.
Total non-current assets increased from HRK 7,741 million at 31 December 2007 to HRK 7,978 million at 31 December 2008 due to increased investment in broadband access and the core infrastructure.
The decrease in total current assets from HRK 7,551 million at 31 December 2007 to HRK 7,201 million at 31 December 2008, is mostly related to the dividend payment and increased investment activities.
Total issued capital and reserves decreased to HRK 12,440 million (2007: HRK 12,543 million), mainly because of the higher dividend payment (paid in May in the amount of 2,421 million HRK).

Cash Flow

Cash flow from operating activities is T-HT's principal source of funds, enabling the Group to finance capital investments and dividend distributions. Compared to 2007, net cash flow from operating activities decreased by 1.4% as a result of higher income taxes paid in amount 125 million HRK while net cash flow from financing activities decreased as a result of a lower dividend payment of 196 million HRK. The net increase in cash and cash equivalents of HRK 1,864 million is a result of restructuring time deposits greater than three months towards time deposits of less than three months due to an expected increase in interest on short term deposits.

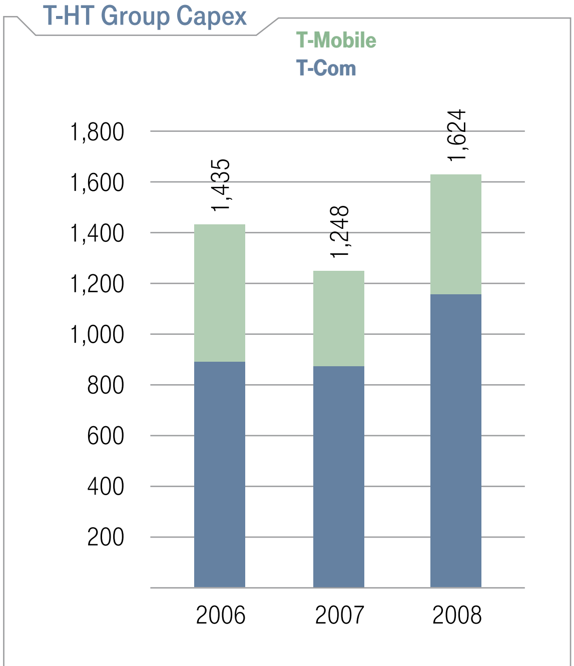
CAPEX

Capital expenditure increased by 30.1% in 2008 to HRK 1,624 million (2007: HRK 1,248 million).

T-Com's capital expenditure increased by 32.3% to HRK 1,156 million (2007: HRK 874 million), with investments mainly focused on the ADSL broadband network, MAXtv, IT support and the maintenance of the core access network.

T-Mobile's capital expenditure increased by 25.1% to HRK 468 million (2007: HRK 374 million), mainly because of further investment in the development of the 2G and 3G network and platforms.

T-HT Group Capex



Financial Results of the T- Com Segment

Revenue

Total revenue from T-Com decreased by 1.0% to HRK 5,198 million (2007: HRK 5,249 million), primarily due to a decrease in fixed-telephony traffic caused by fixed-to-mobile substitution and increased competition.
The decrease was partially balanced by the strong performance of wholesale services and a significant increase in revenues from Internet services, particularly ADSL and IPTV.

Fixed-telephony revenue

Fixed-telephony revenues decreased by 10.1% to HRK 2,798 million (2007: HRK 3,113 million), representing 53.8% of T-Com's revenues.

The decrease in revenue from fixed telephony is primarily due to a decrease in fixed-telephony traffic caused by fixed-to-mobile substitution and increased competition resulting in customer migration to other operators (CPS, ULL). Migration to other operators through ULL continued in 2008; the number of CPS customers remained stable from 2007 but number portability (NP) increased by 127,283 users. The combination of these factors produced 9.7% lower national and international traffic and 15.8% lower fixed-to-mobile traffic in 2008.

Revenue from Internet services

Revenue from Internet services increased by 33.2% to HRK 901 million (2007: HRK 676 million) as a result of a shift from dial-up services to broadband and the growth of new Internet services.
After consolidation, Iskon's contribution to revenue was HRK 93 million (2007: HRK 70 million).
The ADSL customer base grew strongly to reach 472,653 customers in December 2008, up 37.0% from 344,925 subscribers in December 2007.
ARPA in ADSL declined slightly by 1.6% because of our continuing efforts to offer strong promotions and keener pricing in order to increase broadband penetration and retain the largest market share in Croatia. Both of these strategic objectives are important foundations for the long-term success of our business.
T-HT's MAXtv service enjoyed particularly strong growth, increasing subscriber numbers 210.0% from 43,734 in December 2007 to 135,573 in December 2008. We attribute this excellent performance to a combination of product innovation and strong promotional activities around our premium content offerings.

Revenue from Data services

Revenue from data services represents 3.8% of the total T-Com's revenues. Revenues from data services decreased in 2008 by 5.7% to HRK 199 million (2007: HRK 211 million) due to the migration of our customers from traditional data services to lower priced, IP- based services. As a part of its long - term data strategy, T-Com has focused on migrating customers from traditional data to new services such as Metro Ethernet and IP VPN, supported by promotional efforts.

Revenue from Wholesale services

The wholesale business segment represents 22.2% of T-Com's total revenue. Wholesale revenue increased by 6.8% to HRK 1,155 million (2007: HRK 1,082 million), primarily driven by continued market liberalization and introduction of new services that resulted in increased revenue from providing infrastructure services to other national operators (ULL, collocation, DTI etc.). The continued deregulation process in Croatia fostered further growth of interconnection revenue. The majority of wholesale revenues (60%) come from traffic services a similar proportion as in 2007.
The termination of international traffic into the Republic of Croatia and neighbouring countries continues to generate the majority of revenues at our international wholesale business.

Operating Expenses

Excluding exceptional items of HRK 45 million (2007: HRK 95 million), operating expenses before depreciation and amortization increased by 4.7% to HRK 3,338 million (2007: HRK 3,189 million), primarily because of increases in the costs of merchandise, international telecommunication services purchased and rental costs.

- The cost of merchandise, material and energy significantly increased by 41.6% to HRK 511 million (2007: HRK 361 million) mainly due to higher cost of mobile merchandise purchased and increase in the cost of modems and terminal equipment for services such as ADSL and IPTV, which were necessary to support significant growth in broadband customer base.

- Services expenses increased by 7.9% to HRK 1,114 million (2007: HRK 1,033 million) primarily because of an increase in international telecommunications services costs due to an increase in international transit traffic and an increase in copyright fees related to the growth in TV and film content at MAXtv.
- Total employee benefits expenses (before exceptional items of HRK 79 million in 2007 and HRK 45 million in 2008) decreased by 5.0% to HRK 931 million (2007: HRK 980 million), mainly as a result of the continuing headcount reduction programme.
- Other expenses remained on the same level in amount of HRK 890 million. Significant increase in rental and leasing expenses and expenses for temporary work and personnel leasing is compensated with decrease in maintenance expenses and consulting fees.
- Work performed by the Company and capitalized increased by 21.1% in 2008 to HRK 136 million (2007: HRK 113 million) as a result of higher capitalization of provisioning services for new customers.
- The write down of current assets decreased from HRK 54 million in 2007 to HRK 29 million in 2008 mainly as a result of lower expenses from value-adjusted receivables, partially balanced by a higher write off of obsolete inventory.
- Depreciation and amortization decreased as a result of lower impairment of noncurrent assets compared to previous year.

T-Com Profitability

EBITDA

In 2008, EBITDA (before exceptional items of HRK 95 million in 2007 and HRK 45 million in 2008) decreased by 8.4% to HRK 2,071 million (2007: HRK 2,259 million), primarily because of the increased costs of services (international telecommunication services and copyright fees), merchandise and rental costs, against revenues that remained broadly flat. The EBITDA margin was 39.8% in 2008 (2007: 43.0%).

EBIT

EBIT decreased by 9.8% to HRK 1,133 million (2007: HRK 1,257 million) as a result of EBITDA development.

CAPEX

Capital expenditure increased by 32.3 % to HRK 1,156 million (2007: HRK 874 million) mainly as a result of investment in the ADSL broadband network, MAXtv, IT support and the maintenance of core access network. The capex to sales ratio increases by 5.5 percentage points to 22.2% of revenues (2007: 16.7 % of revenues)

Financial Results of the T- Mobile Segment

Revenue

T-Mobile's total revenue increased by 6.1% to HRK 4,430 million (2007: HRK 4,174 million), mainly as a result of a 7.7% increase in postpaid revenues to HRK 2,645 million following strong growth in the postpaid subscriber base. This increase was partly offset by a decrease in call prices.

Operating Expenses

T-Mobile had total operating expenses before depreciation and amortization of HRK 2,652 million (2007: HRK 2,522 million), representing an increase of 5.2%. This increase in costs resulted from an increase in the cost of mobile merchandise.

- Merchandise, material and energy expenses increased by 17.2% to HRK 725 million (2007: HRK 618 million), mainly as a result of the increase in the cost of mobile merchandise sold through both direct and indirect channels.
- The cost of services increased by 5.0% to HRK 890 million in 2008 (2007: HRK 848 million), because of an increase in telephony services as a result of the higher subscriber base.
- Other expenses decreased by 3.3% to HRK 710 million (2007: HRK 735 million) as a result of lower provision costs and lower commission costs associated with a new commissioning scheme at T-HT.
- T-Mobile's total employee benefits expenses increased by 4.6% to HRK 228 million (2007: HRK 218 million) as a result of a slightly higher number of employees and a higher average salary compared with 2007..
- T-Mobile's depreciation and amortization decreased because the majority of IN platforms were fully depreciated in 2007.

T-Mobile Profitability

EBITDA

In 2008, EBITDA for mobile telephony increased by 8.3% to HRK 1,938 million from HRK 1,790 million in 2007, as growth in mobile telephony and other revenues outpaced an increase in operating expenses. Mobile telephony revenues were 6.1% higher than in 2007, while other income was 16.8% higher than 2007 as a result of higher collected written-off receivables from previous years and higher discounts received from suppliers. The EBITDA margin is 43.8% (2007: 42.9%).

EBIT

EBIT for mobile telephony increased by 16.4% to HRK 1,469 million (2007: HRK 1,262 million) as a result of the above mentioned reasons.

CAPEX

Capital expenditure increased by 25.1% to HRK 468 million (2007: HRK 374 million). It was mainly invested in further development of the 2G and 3G network and platforms. Consequently, the Capex to revenue ratio rose by 1.6 percentage points to 10.6% (2007: 8.9% of revenues).

Consolidated Financial statements

General information

Management report

Overview of operations for 2008 according to the best knowledge of the Board contains true presentation of development and results of operations and position of the Issuer and entities included in consolidation, with description of significant risks and uncertainties for the Issuer and entities.

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Act in force, the Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Group for that period.

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

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

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

The 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 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 17 February 2009.

HT - Hrvatske telekomunikacije d.d.
Savska cesta 32
10000 Zagreb
Republic of Croatia

26 February 2009

On behalf of the Group,

Ivica Mudrinić
President of the Management Board

Auditors' report

To the Shareholders of HT - Hrvatske telekomunikacije d.d.:

We have audited the accompanying consolidated financial statements ("the financial statements" of HT - Hrvatske telekomunikacije d.d. ("HT d.d.", "T-HT" or the "Parent Company") and its subsidiaries (together, the Group) which comprise Consolidated balance sheet as at 31 December 2008 and Consolidated income statement, Consolidated statement of recognised income and expenses and Consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 74 to 117).

Management Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of the Group as at 31 December 2008 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to the following matters:

Ownership over and right to use ducts

As explained in more detail in Note 11, the assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of T-HT, HPT Public Company, by virtue of the " Separation of Croatian Post and Telecommunication Act" and contributed by the Republic of Croatia to the share capital at the foundation of T-HT on 1 January 1999. Notwithstanding the aforementioned legal transfer, part of T-HT's infrastructure that may be considered as a real estate and which is known as Distributive Telecommunication Infrastructure (DTI or ducts) - does not have all necessary documents required under other Croatian legislation (building, use permits etc.) and a major part is still not registered in the land registry. These matters may be relevant for the issue of proving the ownership towards third parties. In this regard current intrusions in T-HT ducts by other competitors and some claims of ownership over these assets made by local authorities (primarily the City of

Zagreb), may have a material effect on the financial statements in the case that T-HT will not be able to legally prove its ownership rights on some ducts. The net book value of all T-HT's ducts at 31 December 2008 is HRK 857 million.

In addition, on 16 September 2008 T-HT received a lawsuit filed by the Zagreb Digital City Ltd. branch of the Zagreb Holding Ltd. (hereinafter: ZHZDG) against the T-HT. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in amount of 120 millions HRK plus interest.

The suit is based on the legal acts adopted by the Administration and Assembly of the City of Zagreb in years 2006 and 2007 by which DTI has been declared a communal infrastructure owned by the City of Zagreb. These acts have been challenged by T-HT before the Constitutional Court of the RoC and the suit was filed in front of the Commercial Court in Zagreb claiming that contracts concluded between ZHZDG and other operators based on the legal acts in question are to be declared invalid. These legal proceedings are still ongoing.

The T-HT's attorney in the case of ZHZDG lawsuit who is also the representative of the T-HT in the ongoing proceedings in front of the Constitutional and Commercial courts, is of a firm belief that the petitioner ZHZDG cannot succeed with its claim neither in the part of DTI ownership determination nor in the part of 120 million HRK claimed payment, if the court decision will be based on the appropriate legislation of the RoC.

T-HT assessed and declared the existence of the risks thereon, including of obtaining a legal opinion with respect to certain of the issues involved; however, due to the fact that these issues are very complex and dependent on future legal proceedings and determinations, T-HT was not able to positively determine the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to 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.

Competition Agency enquiry

As explained in more detail in Note 28, there has been a complaint made by competitor VIPnet d.o.o. towards the Competition Agency regarding Frame Agreements that T-HT and T-Mobile Croatia d.o.o. signed with their key and large business clients that allegedly contain anti competitive clauses. On 12 July 2007, the Competition Agency brought decision that T-HT and T-Mobile Croatia d.o.o. abused their dominant position by conclusion of these Frame Agreements. The Agency has initiated proceedings before the Misdemeanour Court against the T-HT and T-Mobile Croatia d.o.o. for determining whether the misdemeanour occurred and, if yes, for assessing the penalty. The T-HT and T-Mobile Croatia d.o.o. have submitted a first memorandum containing a written defence and expect a first hearing before the Misdemeanour Court in spring this year. The penalty for violations of the Protection of Market Competition Act could amount up to a maximum of 10% of the annual HT d.d. and T-Mobile Croatia d.o.o. turnover.

A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT - Optima Telekom d.o.o to the Croatian Telecommunications Agency (Croatian Agency for Post and Telecommunications under the 2008 Law) in June 2006. The Agency has now referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether a misdemeanour has been committed. The decision of the telecommunications inspector is still pending, however, no further advance in this case has occurred until this time. The penalty for violations of the Telecommunications Act could potentially amount to between 1% and 5% of the annual turnover of the T-Com business unit.

T-HT and T-Mobile Croatia d.o.o. are vigorously defending both these situations. There is no history of significant settlements in Croatia under either the Competition Act or imposed by misdemeanour courts. Due to lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to positively determine the likelihood of the possible outcome of these cases, however management believes that any settlement if ultimately required on final resolution will be significantly less than maximum penalties outlined above.

Consumer Act claims

As explained in Note 28, currently, the T-HT is involved in legal proceedings for alleged breach of the Consumer Act. The claimants are residential customers of the T-HT (as well as the consumer protection association) and they are contending that the T-HT's monthly access charges in its consumer contracts are unjust and in breach of the Consumer Act.

The T-HT vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. It believes that it should win on appeal. Management and T-HT's legal advisers consider that this claim is without merit and the T-HT considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government, and that adverse settlement of this case is remote.

No adjustments have been made to these consolidated financial statements relating to any of these matters.

Ernst&Young d.o.o.
Zagreb
Republic of Croatia

Slaven Đuroković

26 February 2009

Consolidated income statement

For the year ended 31 December 2008

	Notes	2008 HRK millions	2007 HRK millions
Rendering of services		8,734	8,340
Sale of goods		82	240
Revenue	3	**8,816**	**8,580**
Other operating income		**274**	**258**
Merchandise, material and energy expenses		(1,105)	(867)
Services expenses	4	(1,357)	(1,172)
Employee benefits expenses			
Gross salaries		(867)	(902)
Taxes, contributions and other payroll costs		(273)	(271)
Redundancy expenses	6	(48)	(79)
Other long-term employee benefits	20	(14)	(24)
Work performed by the Group and capitalised		159	143
Depreciation and amortisation	5	(1,346)	(1,362)
Impairment of non-current assets	5	(17)	(74)
Impairment of investment	12	(1)	(2)
Write down of current assets		(94)	(154)
Other expenses	7	(1,525)	(1,555)
Total operating costs		**(6,488)**	**(6,319)**
Operating profit		**2,602**	**2,519**
Interest income		356	331
Financial expense		(34)	(19)
Share of profits of associates	12	1	2
Income from investment in joint ventures	13	17	256
Profit before taxes		**2,942**	**3,089**
Taxation	8	(632)	(616)
Net profit for the year		**2,310**	**2,473**
Earnings per share – basic and diluted, for profit for the year attributable to ordinary equity holders of the Company	9	**HRK 28.21**	**HRK 30.20**

The accompanying accounting policies and notes are an integral part of this consolidated income statement.

Consolidated balance sheet

As at 31 December 2008

	Notes	2008 HRK millions	2007 HRK millions
ASSETS			
Non-current assets			
Intangible assets	10	972	1,005
Property, plant and equipment	11	6,428	6,153
Investments in associates	12	2	2
Investment in joint venture	13	365	348
Available-for-sale investments	14	37	43
Goodwill		77	77
Non - current receivables		37	41
Deferred tax asset	8	60	72
Total non-current assets		**7,978**	**7,741**
Current assets			
Inventories	16	314	230
Trade and other receivables	17	1,293	1,266
Prepayments and accrued income		105	62
Available-for-sale investments	14	53	93
Time deposits	18 b)	213	2,533
Cash and cash equivalents	18 a)	5,223	3,367
Total current assets		**7,201**	**7,551**
TOTAL ASSETS		**15,179**	**15,292**

Consolidated balance sheet (continued)

As at 31 December 2008

	Notes	2008 HRK millions	2007 HRK millions Restated
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	23	8,189	8,189
Legal reserves	24	409	409
Fair value reserves	25	(1)	2
Retained earnings	25	3,843	3,943
Total issued capital and reserves		**12,440**	**12,543**
Non-current liabilities			
Provisions	22	105	90
Employee benefit obligations	20	187	201
Deferred income	21	128	143
Long-term loans and other long-term liabilities		21	20
Total non-current liabilities		**441**	**454**
Current liabilities			
Trade and other payables	19	1,590	1,442
Provisions for redundancy	6	139	231
Other accruals	26	192	149
Deferred income	21	292	378
Income tax payable		82	95
Short-term borrowings and current portion of long-term loans		3	-
Total current liabilities		**2,298**	**2,295**
Total liabilities		**2,739**	**2,749**
TOTAL EQUITY AND LIABILITIES		**15,179**	**15,292**

The accompanying accounting policies and notes are an integral part of this consolidated balance sheet.

Signed on behalf of HT Group on 26 February 2009:

Ivica Mudrinić

Jürgen P. Czapran

Consolidated cash flow statement

For the year ended 31 December 2008

	Notes	2008 HRK millions	2007 HRK millions
Operating activities			
Net profit		2,310	2,473
Depreciation charges	5	1,346	1,362
Impairment loss of non-current assets	5	17	74
Income tax expense	8	632	616
Interest income		(328)	(308)
Gain on disposal of assets		(13)	(3)
Dividenda od pridruženih društava	13	-	(1)
Income from investment in joint venture	13	(18)	(251)
Increase in inventories		(111)	(60)
Increase in receivables and prepayments		(84)	(128)
Dividends received		-	(5)
Increase/(decrease) in payables and accruals		31	(53)
(Decrease)/increase in employee benefit obligations	20	(14)	6
Interest paid		(7)	-
Increase/(decrease) in provisions		15	(5)
Value adjustment of inventories		27	6
Other non-cash items		8	7
Increase in recognised actuarial losses		-	(2)
Taxes paid		(699)	(574)
Net cash flows from operating activities		**3,112**	**3,155**
Investing activities			
Purchase of non-current assets	10,11	(1,624)	(1,245)
Purchase of non-current financial assets		-	(25)
Proceeds from sale of non-current assets		39	17
Proceeds from sale of non-current financial assets		14	14
Proceeds from sale of current financial assets		405	143
Purchase of available for sale financial assets		-	(29)
Proceeds from sale of available for sale financial assets		1,971	2,258
Proceeds from due held to maturity financial assets		-	145
Interest received		380	309
Dividend received		-	5
Net cash flows from investing activities		**1,185**	**1,592**

Consolidated cash flow statement (continued)

For the year ended 31 December 2008

	Notes	2008 HRK millions	2007 HRK millions
Financing activities			
Repayment of long-term borrowings		(1)	(6)
Repayment of lease liability		(11)	(3)
Dividends paid	25	(2,421)	(2,617)
Net cash flows used in financing activities		**(2,433)**	**(2,626)**
Net increase in cash and cash equivalents		1,864	2,121
Effect of F/X rate changes on cash and cash equivalents		(8)	(8)
Cash and cash equivalents at 1 January		**3,367**	**1,254**
Cash and cash equivalents at 31 December	**18 a)**	**5,223**	**3,367**

The accompanying accounting policies and notes are an integral part of this consolidated cash flow statement.

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Notes	2008 HRK millions	2007 HRK millions
Income and expense recognised directly in equity			
Valuation losses from available for sale financial assets	14	(3)	(10)
Deferred tax liabilities on items directly recognised in equity		(3)	(1)
Other		14	1
Net income recognised directly in equity		8	(10)
Profit for the financial year		2,310	2,473
Total income and expense recognised in the year		2,318	2,463

The accompanying accounting policies and notes are an integral part of this consolidated statement of recognised income and expense.

1 Corporate information

HT - Hrvatske telekomunikacije d.d. ("HT d.d.", "T-HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom AG ("DTAG") (51%).
The registered office address of the Company is Savska cesta 32, Zagreb, Croatia.
The total number of employees of the Group as at 31 December 2008 was 6,487 (2007: 6,724).
The principal activities of the Group are described in Note 3.
The consolidated financial statements of HT - Hrvatske telekomunikacije d.d. for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Management Board on 17 February 2009. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for investments available-for-sale stated at fair value (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 functional currency. All amounts disclosed in the consolidated financial statements are stated in millions of HRK if not otherwise stated.
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.1. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:
The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

IFRIC 11 IFRS 2: Group and Treasury Share Transactions
The Group has adopted IFRIC Interpretation 11 insofar as it applies to the entity's financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group amended its accounting policies accordingly although it has not issued any instruments caught by this interpretation.

IFRIC 12 - Service Concession Arrangements
This interpretation was issued in November 2006. It applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Group does not engage in arrangements which fall within the scope of IFRIC 12, this interpretation has no impact on the financial statements. The Group provides additional information on Service Concession Agreements in Note 32.

The consolidated financial statements include the financial statements of HT - Hrvatske telekomunikacije d.d. and the following subsidiaries:

Entity	Country of Business	Vlasnički udjel 2008. godina	Vlasnički udjel 2007. godina
T Mobile Hrvatska d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.o.o.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%

Amendments to IAS 39 Financial instruments: Recognition and Measurement, and IFRS 7 Financial instruments: Disclosures
An amendment to the Standards, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Group amended its accounting policy accordingly although it have not used permitted option to reclassify.

IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group amended its accounting policy accordingly, although the adoption of this interpretation had no impact on the financial position or performance of the Group. Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group in periods beginning on or after 1 January 2009 or later periods. The Group has not early adopted any of these standards or interpretations and will adopt them at their effective date, as follows:

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009)
These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements by removing the definition of the cost method from IAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor. It is not expected that these amendment to IFRS 1 and IAS 27 will have any impact on the financial position of the Group, as the Group is not a first-time IFRS adopter and dividends received are already presented as income in the separate financial statements.

IFRS 2 Share-based Payment (Revised, effective for annual periods beginning on or after 1 January 2009)
The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It is not expected that this amendment to IFRS 2 will have any impact on the financial position or performance of the Group as no events occurred that this interpretation relates to.

IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)
The IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The Group has concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. It is not expected that this amendment to IAS 23 will have any impact on the financial position or performance of the Group.

IFRIC 13 Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008)
IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group operates such scheme and

currently recognizes the provision for customer loyalty program through expenses. Adoption of the IFRIC 13 will result in both the change of the presentation in the income statement and balance sheet.

IFRIC 15 Agreements for construction of Real Estates (effective for annual periods beginning on or after 1 January 2009)
This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements in the scope of this Interpretation are agreements for the construction of real estate. In addition to the construction of real estate, such agreements may include the delivery of other goods or services. It is not expected that adoption of this interpretation will have influence on the Group's financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)
This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The Group does not have hedges, and accordingly the adoption of this interpretation is not expected to have any effect on the financial position or performance of the Group.

IFRIC 17 Distribution of Non-Cash Assets to owners (effective for annual period beginning on or after 1 July 2009):
IFRIC 17 applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:
(a) Distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in IFRS 3, ownership interests in another entity or disposal groups as defined in IFRS 5); and
(b) Distributions that give owners a choice of receiving either non-cash assets or a cash alternative.
This Interpretation applies only to distributions in which all owners of the same class of equity instruments are treated equally. The interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution. Since the Group does not distribute non-cash assets to the owners, it is not expected that adoption of this interpretation will have any effect on its financial position or performance.

Improvements to IFRSs

In May 2008 the International Accounting Standards Board (IASB) issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has early adopted the following amendments to standards:

IAS 1 Presentation of Financial Statements:
Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. The Group has analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.

IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

IAS 28 Investment in Associates: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it

does not account for its associates at fair value in accordance with IAS 39.
An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. This amendment has no impact on the Group because it does not account for its joint ventures at fair value in accordance with IAS 39.

IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Group as discounted cash flows are not used to estimate 'fair value less cost to sell'.

IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.
The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated 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, at the reporting date. 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 balance sheet date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:
Impairment of Non-financial assets: The Group's impairment test for Goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. 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.
Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Further details including carrying values and effects on the result of the period are given in Notes 10 and 11.

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 investments, dividend income from subsidiary and associates, interest expense on borrowings, gains and losses on the sale of available for sale financial instruments and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

b) Business Combinations and Goodwill
Business combinations are accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, 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, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. 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.

c) Investments in associates

In the Group's financial statements, investments in associated companies (generally investments with an ownership interest of between 20% and 50% in a company's equity) where significant influence is exercised by the Group. are accounted for using the equity method less any impairment in value. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in previous years no longer exist.

d) Interest in joint ventures

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises 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 recognised 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 derecognised at the date on which the Group ceases to have joint control over the joint venture.

e) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised in the event that the future economic benefits that are attributable to the assets will flow to the enterprise, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful life. There are no intangible assets that are assessed to have indefinite useful life. The amortisation method is reviewed annually at each financial year-end.

Useful life of intangible assets is as follows:

UMTS licences	20 years
Patents and concessions	5 - 10 years
Software and other assets	5 years

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.
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.

The useful life of newly acquired assets is as follows:

Buildings	10 - 50 years
Telecom plant and machinery	
Cables	10 - 18 years
Cable ducts and tubes	30 years
Other	2 - 15 years
Tools, vehicles, IT and office equipment	4 - 15 years
Other property, plant and equipment	2 - 30 years

Land is not depreciated.
The useful life, 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.

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

h) Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill 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 recognised. 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 15 for more details.

i) Inventories
Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined on the basis of weighted average cost.

j) Receivables
Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

k) Foreign currencies
Transactions denominated in foreign currencies are translated into local currency at the middle exchange rates of 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 Croatian National Bank prevailing at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the income statement within financial income or financial expense, respectively.

l) Operating leases
Rentals payable under operating leases are recognised as an expense on a straight-line basis over the lease term, even if the payments are not made on such a basis.

m) Taxation
The income tax charge is based on profit for the year and includes deferred taxation. Deferred taxes are calculated using the balance sheet 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. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted at the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the balance sheet. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.
Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

n) Employee benefit obligations
The Group provides other long-term employee benefits (see Note 20). These benefits include retirement and jubilee (length of service) payments, and are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. If the benefits have already vested, immediately following the introduction of or changes to a benefit plan, past service costs are recognised immediately. Gains or losses on the curtailment or settlement of benefit plans are

recognised 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 defined benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognised as income / expense in the period in which they occur.
The Group provides death in service short term benefit which is recognised into expense of the period in which it incurred.

o) Revenue recognition
Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and that the amount of the revenue can be measured reliably. Revenues for all services are recognised net of VAT and discounts when the service is provided.
Revenue from fixed telephony includes revenue from activation, monthly fees, calls placed by fixed line subscribers and revenue from additional services in fixed telephony. Revenue from activation (connection fees) is recognised on a straight-line basis throughout future periods depending on an average useful life of a single customer line.
Revenue from wholesale services includes interconnection services for domestic and international carriers.
Revenue from mobile telephony includes revenue from installation, 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 T-Mobile's network, sale of mobile handsets and domestic interconnection revenues related to mobile network.
Revenue from monthly fee, unused tariff packages and prepaid vouchers are recognised when they are realised. Before their realisation, they are recorded as deferred revenues.
Revenue arrangements with multiple deliverables in mobile business (bundled product offers) are recognised in accordance with industry specific US GAAP rule EITF 00-21 as allowed by IFRS. Revenue arrangements with multiple deliverables are divided into separate units of accounting. Arrangement consideration is allocated among the separate units of accounting based on their relative fair values. The arrangement consideration allocable to a delivered item that does not qualify as a separate unit of accounting within the arrangement is combined with the amount allocable to the other applicable undelivered item within the arrangement. Appropriate recognition of revenue is then applied to those combined deliverables as a single unit of accounting. The amount allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).
Revenue from Internet and data services includes revenue from leased lines, frame relay, ATM, Ethernet services, ADSL subscription and traffic, fixed line access, WEB hosting, VPN online, internet traffic to T-Com call number, Multimedia services, IP phone (access and traffic) and IPTV. Such revenue is recognized in the accounting period in which it is earned in accordance with the realization principle.
Revenue from dividends is recognised when the Group's right to receive the payment is established.
Interest revenue is recognised as interest accrues (using the effective interest rate that is the rate that exactly discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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

q) Borrowings
Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from

foreign currency borrowings, are expensed in the period in which they are incurred.
Borrowings are initially recognised in the amount of the proceeds received net of transaction costs.

r) Investments
All investments, other than loans and receivables originated by the Group, are classified as available-for-sale.
Available-for-sale investments are classified as current assets if management intends to realise them within 12 months after the balance sheet date. All purchases and sales of investments are recognised on the settlement date.
Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.
Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.
Gains or losses on measurement to the fair value of available-for-sale investments are recognised directly in the fair value reserve in shareholders' equity, 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 recognised in equity is included in net profit or loss for the period.
Financial instruments are generally recognised 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 derecognised when the cash is collected or the rights to receive cash from the assets have expired. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

s) Provisions
A provision is recognised 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 balance sheet 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 recognised as interest expense.
Provisions for termination benefits are recognised 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 similar voluntary redundancy programs.

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

u) Share-based payment transactions
The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 33.
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 balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

v) Correction of error
In this financial year, the Group has decided to recognise accruals for unused vacation by its employees for the first time. As a result, employee related costs in 2008 are lower by HRK 0.2 million (2007: lower by HRK 2 million), net profit for 2008 is higher by HRK 0.2 million (2007: higher by HRK 2 million), basic and diluted earnings per share for 2008 are higher by HRK 0.002 (2007: higher by HRK 0.02), as at 1 January 2007 Current provisions were increased by the amount of HRK 34 million and reserves were decreased by the amount of HRK 34 million (see Note 25).

w) Comparatives
Prior year financial statements have been reclassified in order to comply with current year classification. Net profit and total assets were not impacted by these changes.
Major reclassification relates to change of Group's reporting method of Value added services (VAS) revenues from gross to net in the year 2008 in order to be in full compliance with the requirements of IAS 18. Net reporting method was also used in presentation of data for the year 2007 as a comparative period. Those nettings lowered both revenues and costs of services by HRK 189 million (2007: HRK 256 million).

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

3 Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically.
The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.
T-Com segment provides fixed telephony, wholesale services, internet services and data services.
T-Mobile provides mobile telephony.
Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transactions between business segments. Those transactions are eliminated in consolidation.
The Group's geographical segments are based on the geographical location of its customers.
Revenue from mobile terminating calls transited through T-Com's network are disclosed as revenue from wholesale services in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.
Revenue from sale of mobile trade goods through T-Com's shops is disclosed as miscellaneous revenue in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.
Due to tourist season, higher revenues and operating profits are usually expected in the summer months for T-Mobile segment.

The following tables present revenue and profit and certain assets and liabilities information regarding the Group's business segments:

Business segments

Year ended 31 December 2008	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
Fixed telephony	2,796	-	-	-	2,796
Wholesale services	836	-	(117)	-	719
Internet services	899	-	-	-	899
Data services	199	-	-	-	199
Mobile telephony	-	3,994	200	-	4,194
Miscellaneous	92	-	(83)	-	9
Sales to external customers	**4,822**	**3,994**	**-**	**-**	**8,816**
Inter-segment sales	376	436	-	(812)	-
Total revenue	**5,198**	**4,430**	-	**(812)**	**8,816**
Results					
Segment results	1,133	1,469	-	-	2,602
Net finance revenue	241	99	-	-	340
Profit before income tax	**1,374**	**1,568**	**-**	**-**	**2,942**
Income tax expense	(299)	(333)	-	-	(632)
Net profit for the year	**1,075**	**1,235**	**-**	**-**	**2,310**
As at 31 December 2008 Assets and liabilities					
Segment assets	**10,924**	**4,056**	**-**	**(168)**	**14,812**
Investment in associates	2	-	-	-	2
Investment in joint venture	365	-	-	-	365
Total assets	**11,291**	**4,056**	**-**	**(168)**	**15,179**
Segment liabilities	1,787	1,120	-	(168)	2,739
Total liabilities	**1,787**	**1,120**	**-**	**(168)**	**2,739**
Other segment information					
Capital expenditure:					
Property, plant and equipment	1,000	342	-	-	1,342
Intangible assets	157	125	-	-	282
Depreciation	713	301	-	-	1,014
Amortisation	167	165	-	-	332
Impairment losses recognised in income statement	(14)	(3)	-	-	(17)
Provisions and employee benefit liabilities	250	42	-	-	292

Business segments

Year ended 31 December 2007	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
Fixed telephony	3,110	-	-	-	3,110
Wholesale services	747	-	(87)	-	660
Internet services	674	-	-	-	674
Data services	211	-	-	-	211
Mobile telephony	-	3,717	186	-	3,903
Miscellaneous	121	-	(99)	-	22
Sales to external customers	**4,863**	**3,717**	-	-	**8,580**
Inter-segment sales	386	458	-	(844)	-
Total revenue	**5,249**	**4,175**	-	**(844)**	**8,580**
Results					
Segment results	1,256	1,263	-	-	2,519
Net finance revenue	501	69	-	-	570
Profit before income tax	**1,757**	**1,332**	-	-	**3,089**
Income tax expense	(341)	(275)	-	-	(616)
Net profit for the year	**1,416**	**1,057**	-	-	**2,473**
As at 31 December 2007 **Assets and liabilities**					
Segment assets	**11,374**	**3,730**	-	**(162)**	**14,942**
Investment in associates	2	-	-	-	2
Investment in joint venture	348	-	-	-	348
Total assets	**11,724**	**3,730**	-	**(162)**	**15,292**
Segment liabilities	1,885	1,026	-	(162)	2,749
Total liabilities	**1,885**	**1,026**	-	**(162)**	**2,749**
Other segment information					
Capital expenditure:					
Property, plant and equipment	748	278	-	-	1,026
Intangible assets	127	95	-	-	222
Depreciation	692	340	-	-	1,032
Amortisation	156	174	-	-	330
Impairment losses recognised in income statement	60	14	-	-	74
Provisions and employee benefit liabilities	259	32	-	-	291

Revenue - by geographical area

	2008 HRK millions	2007 HRK millions Restated
Republic of Croatia	7,974	7,809
Rest of the World	842	771
	8,816	**8,580**

4 Services expenses

	2008 HRK millions	2007 HRK millions Restated
Domestic interconnection	558	506
International interconnection	543	453
Other services	256	213
	1,357	**1,172**

5 Depreciation, amortisation and impairment of non-current assets

	2008 HRK millions	2007 HRK millions
Depreciation	1,014	1,032
Amortisation	332	330
	1,346	1,362
Impairment loss	17	74
	1,363	**1,436**

Please see Notes 10 and 11 for further details on amortisation and depreciation expense and impairment loss.

6 Redundancy expenses

	2008 HRK millions	2007 HRK millions
Provision at 1 January	231	428
Additions charged to the income statement	48	79
Utilisation	(140)	(276)
Provision at 31 December	**139**	**231**

Redundancy expenses and accrued liabilities of the Group include the amount of gross severance payments for employees whose employment contracts will be terminated during 2009 due to business reasons.

7 Other expenses

	2008 HRK millions	2007 HRK millions Restated
Maintenance services	369	392
Advertising	287	275
Rent	187	128
Selling commission	129	142
Contract workers	89	49
Postal expenses	68	54
Education and consulting	56	86
Non - income taxes & contribution	56	56
Provision for charges and risks (Note 22)	42	84
Daily allowances and other costs of business trips	25	23
Loss on disposal of fixed assets	7	18
Other operating charges	210	248
	1,525	**1,555**

8. Taxation

a) Tax on profit

	2008 HRK millions	2007 HRK millions
Current tax expense	620	607
Deferred tax expense	12	9
Taxation	**632**	**616**

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

	2008 HRK millions	2007 HRK millions
Profit on ordinary activities before taxation	2,942	3,089
Income tax at 20% (domestic rate)	588	618
Not taxable income:		
Dividends received and incentives	(3)	(1)
Related to provision for bad debts	(3)	(3)
Reversal of impairment of investment in joint venture	-	(27)
Other	(11)	(3)
Tax effects of expenses not deductible in determining taxable profits:		
Entertainment expenses and car usage	5	5
Tax audit effect (Note 19)	11	-
Provision for bad debts	18	7
Other non-deductible expenses	15	11
Deferred tax expense	12	9
Taxation	**632**	**616**

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

Deferred tax asset

	2008 HRK millions	Charge to Income statement HRK millions	2007 HRK millions
Property, plant and equipment write down	21	(5)	26
Deferred revenue from connection fees	19	(5)	24
Other	20	(2)	22
Total deferred tax assets	**60**	**(12)**	**72**

The deferred tax asset of the Group arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in 2001. Of this amount, HRK 290 million became tax deductible in the period from 2002 to 2008, and the remaining HRK 105 million will be tax deductible in future periods. The Group has recognised deferred tax assets based on temporary differences coming out of revenue recognition of connection fees in previous periods when the tax on those revenues was paid, and due to deferring these fees for the period of useful life of providing services to the customers for reporting purposes.

There are no formal procedures in 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. 2009 for 2008 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 absolute statute of limitation of 6 years expires.

9 Earnings per share

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

Diluted 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 plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2008	2007
Net profit for the year attributable to ordinary equity holders of the Company in HRK millions	**2,310**	**2,473**
Weighted average number of ordinary shares for basic earnings per share	81,888,535	81,888,535

10 Intangible assets

	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under Construction HRK millions	Total HRK millions
Cost					
At 1 January 2007	552	1,292	22	102	1,968
Additions	1	23	1	197	222
Transfers	16	123	4	(143)	-
Transfers from property, plant and equipment	-	-	-	4	4
Disposal	(1)	(5)	(1)	(12)	(19)
At 31 December 2007	568	1,433	26	148	2,175
Additions	-	73	24	185	282
Transfers	55	180	41	(276)	-
Transfers from property, plant and equipment	-	-	-	22	22
Disposals	(15)	(176)	-	-	(191)
At 31 December 2008	**608**	**1,510**	**91**	**79**	**2,288**
Accumulated amortisation					
At 1 January 2007	244	586	12	-	842
Charge for the year	74	252	4	-	330
Impairment loss	4	-	-	12	16
Disposals	(1)	(3)	(2)	(12)	(18)
Transfers	(2)	2	-	-	-
At 31 December 2007	319	837	14	-	1,170
Charge for the year	69	251	12	-	332
Impairment loss	2	-	-	-	2
Transfers from property, plant and equipment	1	2	-	-	3
Disposals	(19)	(172)	-	-	(191)
Transfers	(3)	3	-	-	-
At 31 December 2008	**369**	**921**	**26**	**-**	**1,316**
Net book value					
At 31 December 2007	249	596	12	148	1,005
At 31 December 2008	**239**	**589**	**65**	**79**	**972**

The intangible assets of the Group as of 31 December 2008 include the GSM and UMTS licence with the carrying value of HRK 8 million and HRK 108 million (2007: HRK 18 million and HRK 115 million), respectively. GSM and UMTS licence is amortised over a period of 10 (starting from September 1999) and 20 (starting from June 2005) years, respectively. Assets under construction primarily relates to software and the various licences for use of software.

Additions of intangible assets
Major additions in the reporting period relate to the upgrade of IPTV system software in the amount of HRK 18 million, IT software upgrades and services in the amount of HRK 54 million, investments into the Group's intangible assets related to network and infrastructure in the amount of HRK 19 million and investments related to ongoing projects in the amount of HRK 10 million.

Impairment loss
During 2008, the Group recognised an impairment loss of intangible assets in the amount of HRK 2 million (2007: HRK 16 million) which mainly relates to licences for transfer of data due to an advance in technology. The recoverable amount of that licences is its fair value less cost to sell, which is based on the best information available to reflect the amount that the Group could obtain, at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

11 Property, plant and equipment

	Land and buildings HRK millions	Telecom Plant and machinery HRK millions	Tools, vehicles, IT and office Equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2007	1,627	8,659	847	407	11,540
Additions	22	353	35	616	1,026
Transfers	77	322	66	(465)	-
Transfers to intangible assets	-	-	-	(4)	(4)
Correction of prior year classification	-	12	-	-	12
Disposals	(3)	(89)	(45)	(3)	(140)
At 31 December 2007	1,723	9,257	903	551	12,434
Additions	14	446	54	828	1,342
Transfers	66	399	63	(528)	-
Transfers to intangible assets	-	-	-	(22)	(22)
Disposals	(13)	(128)	(54)	(4)	(199)
At 31 December 2008	1,790	9,974	966	825	13,555

	Land and buildings HRK millions	Telecom Plant and machinery HRK millions	Tools, vehicles, IT and office Equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Accumulated depreciation					
At 1 January 2007	546	4,273	476	1	5,296
Charge for the year	109	802	121	-	1,032
Impairment loss	-	54	-	3	57
Transfers	(1)	1	-	-	-
Correction of prior year classification	-	12	-	-	12
Disposals	(1)	(78)	(37)	-	(116)
At 31 December 2007	653	5,064	560	4	6,281
Charge for the year	86	825	103	-	1,014
Impairment loss	-	10	-	5	15
Disposals	(9)	(126)	(45)	(3)	(183)
At 31 December 2008	730	5,773	618	6	7,127
Net book value					
At 31 December 2007	1,070	4,193	343	547	6,153
At 31 December 2008	1,060	4,201	348	819	6,428

Included within assets under construction of the Group are spare parts of HRK 55 million (2007: HRK 43 million), net of a provision of HRK 3 million (2007: HRK 3 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
During 2008, the Group recognised an impairment loss of property, plant and equipment in the amount of HRK 15 million (2007: HRK 57 million) which mainly relates to Data and IP Terminal equipment due to an advance in technology. The recoverable amount of that equipment is its fair value less cost to sell, which is based on the best information available to reflect the amount that the Group could obtain, at the balance sheet 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 Group's property, plant and equipment primarily mostly relates to the disposal of the land and buildings in the amount of HRK 13 million, to the disposal telecommunications plant and equipment in the amount of HRK 128 million and of old tools, IT and office equipment in the amount of HRK 54 million (all values stated as gross book values).

Ownership over ducts
Although the 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 T-HT's infrastructure that may be considered as a real estate which is also known as Distributive Telecommunication Infrastructure (DTI or ducts) - does not have all the necessary documents (building, use permits etc.) and the major part is not registered in the land registry, which may be relevant to the issue of proving the ownership towards third parties. Current intrusions in T-HT's ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the consolidated financial statements in the case that T-HT will not be able to prove its ownership rights for some ducts.
The Company formed the Infrastructure Documentation and TC Infrastructure department that is responsible to assure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on T-HT but also on local and state authorities. During the year 2008, 2007 and 2006, actions of T-HT were concentrated on the conclusion of right of way contracts with local municipalities and right of use contracts with Croatian and County roads.
T-HT has concluded right of way contracts with following cities: Rijeka, Dubrovnik, Varaždin, Čakovec, Gospić, Požega, Pula, Bjelovar, Slavonski Brod, Krapina and many other smaller cities and communities. Furthermore, the Company has concluded right of use contracts with Croatian Roads (for all of roads under their management) and with County roads (15 of 21 Counties).
The newly registered DTI route during the year 2006 to 2008 is: cities 2,300 km; county roads 6,700 km, and 2,250 km of all other roads throughout Croatia which are under management of state owned company Hrvatske ceste. Therefore, the situation with documentation has significantly improved.
The legalization process is to be speeded up due to new Law on Electronic Communications which will oblige local municipality and other owner land used for the construction of TC infrastructure to give the Company right of way if other solutions were not agreed. The new Law on Electronic Communications entered into force on 1 July 2008.
The new Law on Electronic Communications addresses this issue to a great extent in line with commitments spelled out in the Memorandum of Understanding (see below). However, it is possible that difficulties and challenges will arise in the current process of passing subordinate regulations under the 2008 Law by the Croatian Agency for Post and Telecommunications. In December 2008 the Agency passed Ordinance on Manner and Conditions for Access and Joint Use of Electronic Communications Infrastructure and Related Equipment (Official Gazette No. 154/08 effective as of January 6, 2009) which replaces the Terms for Joint Use and regulates the issue in similar manner. In December 2008 Croatian Agency for Post and Electronic Communications concluded public discussion on Ordinance on Certificate and Fees for the Right of Way, as foreseen under the Law on Electronic Communications. Draft of the ordinance provides for the fee for the Right of Way Public.
In connection with the offer for sale of ordinary shares the Government of Republic of Croatia (RoC), the Group and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Inter-alia this provides the underlying principles under which right of way charges and shared usage issues will be based. The Government of the 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.
The Group assessed and declared the existence of the risks thereon, including of obtaining legal opinion 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 the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to 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 consolidated financial statements in respect of this matter.

The net book value of all the Group's ducts as of 31 December 2008 is HRK 857 million (2007: HRK 856 million).

12 Investments in associates

The net book value investments in associates comprises:

	2008 Unaudited HRK millions	2007 Audited HRK millions
HP d.o.o. Mostar	2	2
At 31 December	2	2

HT d.d. has an ownership interest of 30.29% in associate HP d.o.o. Mostar which is incorporated in the Republic of Bosnia and Hercegovina. Principal activity of the associate is provision of postal services.

The movement in investments in associates of the Group during the year was as follows:

The net book value	2008 HRK millions	2007 HRK millions
At 1 January	2	99
Reclassification to joint venture	-	(97)
Share of profits	1	2
Impairment of investments	(1)	(2)
At 31 December	2	2

Summarised the Group's share in aggregated financial information of associates is as follows:

Share of the associates balance sheets:	2008 Unaudited HRK millions	2007 Audited HRK millions
Current assets	15	22
Non-current assets	39	40
Current liabilities	(4)	(13)
Non-current liabilities	(19)	(18)
Net assets	**31**	**31**
Share of the associates revenue and profits:		
Revenue	33	17
Profit	**1**	**2**

13 Investment in joint venture

The net book value of investments in joint venture comprises:

	2008 HRK millions	2007 HRK millions
HT d.o.o. Mostar	365	348
At 31 December	**365**	**348**

The Group's share in Hrvatske telekomunikacije d.o.o. Mostar unaudited results for year ended 31 December 2008, including an upward adjustment of HRK 11 million after the jointly controlled entity's final audited result for 2007 was available, is recognised in the income statement in the amount of HRK 17 million (2007: HRK 14 million was recognised based on unaudited results).

Share of the jointly controlled entity balance sheets:	2008 Unaudited HRK millions	2007 Audited HRK millions
Current assets	73	103
Non-current assets	600	606
Current liabilities	(115)	(129)
Non-current liabilities	(85)	(112)
Net assets	473	468
Share of the jointly controlled entity revenue and profits:		
Revenue	366	347
Profit	6	25

14 Available-for-sale investments

Non-current available-for-sale investments include the following bonds:

Issuer	Currency	Interest rate	Maturity	2008 HRK millions	2007 HRK millions
Government of Croatia	HRK	4.75%	8 February 2017	28	33
Other equity securities	HRK			9	10
				37	43

Current available-for-sale investments include the following:

	2008 HRK millions	2007 HRK millions
Unit holdings in money market funds:		
ZB Plus	53	42
Erste Money	-	26
PBZ Money	-	25
	53	93

Estimated fair value of units in money market funds and bonds as of 31 December 2008 is determined by reference to their market value at the balance sheet date offered on secondary capital market.

15 Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to T-Com cash-generating unit, which is also reporting segment, for impairment testing.
The recoverable amount of T-Com unit has been determined based on the value in use calculation using cash flow projections from financial budgets covering a four-year period. The post-tax discount rate applied to cash flow projections is 8.67% (2007: 7.93%) and cash flows beyond the four-year period are extrapolated using a 2.2% growth rate (2007: 2.2%).
The calculation of value-in-use for T-Com unit is most sensitive to the assumptions on market penetration, market share, regulation and discount rate.
With regard to the assessment of value-in-use of T-Com unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

16 Inventories

	2008 HRK millions	2007 HRK millions
Merchandise	175	134
Inventories and spare parts	139	96
	314	230

17 Trade and other receivables

	2008 HRK millions	2007 HRK millions
Trade receivables	1,167	1,200
Other receivables	126	66
	1,293	**1,266**

As at 31 December, the aging analysis of trade receivables is as follows:

		Neither past due	Past due but not impaired				
	Total	nor impaired	< 30 days	30-60 days	61-90 days	91-120 days	>120 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
2008	1,167	794	225	89	28	17	14
2007	1,200	767	271	61	35	25	41

Value adjustment is made for all outstanding receivables older than 120 days, except for receivables for international settlement for which value adjustment is made according to the collection estimate. International settlement makes up the majority of past due but not impaired receivables older than 120 days.

As at 31 December 2008, trade receivables at nominal value HRK 883 million (2007: HRK 878 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2008 HRK millions	2007 HRK millions
At 1 January	**878**	**836**
Charge for the year	466	367
Amounts written off	(461)	(325)
At 31 December	**883**	**878**

18 Cash and cash equivalents and time deposits

a) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2008 HRK millions	2007 HRK millions
Cash on hand and balances with banks	35	161
Time deposits with maturity less than 3 months	5,188	3,206
Cash and cash equivalents	**5,223**	**3,367**

b) Time deposits with maturities more than 3 months

Time deposits with maturities more than 3 months are accounts that bear interest from 6.30 % to 6.80 % and that the Group is entitled to withdraw with prior notice of 1 day. Time deposits, denominated in HRK, are held with the following domestic banks:

	2008 HRK millions	2007 HRK millions
Erste Steiermarkische Bank d.d.	135	855
Raiffeisenbank Austria d.d.	50	489
Hrvatska poštanska banka d.d.	26	218
Zagrebačka banka d.d.	2	413
Privredna banka Zagreb d.d.	-	282
Societe Generale - Splitska banka d.d.	-	226
Hypo bank d.d.	-	50
	213	**2,533**

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

	2008 HRK millions	2007 HRK millions
HRK	4,552	5,192
EUR	857	681
USD	27	27
	5,436	**5,900**

19 Trade and other payables

	2008 HRK millions	2007 HRK millions Restated
Trade payables	1,477	1,360
Payroll and payroll taxes	72	63
VAT and other taxes payable	19	5
Other creditors	22	14
	1,590	**1,442**

There are no formal procedures in 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 at any time during the three years following the end of the tax year in which the corporate income tax returns were submitted. Given the above, tax liabilities of the Group for the years 2004 and thereafter were open to a tax review. During 2005, the tax authorities completed examining the income tax liabilities of the Group for years from 2000 to 2002 and claimed that an additional HRK 92 million of taxes and interest in respect of these years should be paid. The Group had made an appeal against this claim and an objection on Resolution to the same tax authorities. Until the end of 2007, the Group had made a provision for the amount that is in its view, reasonable to expect to be settled in this case. In the financial year of 2008, the case was settled. The Group paid a final amount of HRK 11 million to the tax authorities (see also Note 8).

20 Employee benefit obligations

Other long-term employee benefits include retirement and jubilee (length of service) payments. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service in the Group. All benefit entitlements are determined from the respective employee's monthly remuneration.
Other long-term employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognised as income/expense in the period in which they occur.

The movement in the liability recognised in the balance sheet was as follows:

	2008 HRK millions	2007 HRK millions
Liability, beginning of year	201	199
Net expense recognised in the income statement	14	24
Payments made under scheme	(15)	(21)
Actuarial (gains) / losses	(13)	(1)
Liability, end of year	187	201

21 Accruals and deferred income

	2008 HRK millions	2007 HRK millions Restated
Connection fee	128	143
Accruals and deferred income - non current	128	143
Prepaid vouchers	208	190
Connection fee	35	34
Subscription fee	23	126
Other	26	28
Accruals and deferred income - current	292	378
	420	521

The billing procedure regarding the subscription fees for retail fixed line services was changed by HT d.d. in December 2008 from invoicing for the following month to invoicing for the current month. The Group now bills subscription fees for retail fixed and online services for the current month while data, wholesale and mobile services are invoiced for the following month. The connection fee is recognised on a straight-line basis throughout future periods depending on an average useful life of a single customer line.

22 Provisions

	2008 HRK millions	2007 HRK millions
At 1 January	90	95
Additions	22	40
Utilisation	(7)	(42)
Reversal	-	(3)
At 31 December	105	90

As at 31 December 2008 the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to be asserted in the future against the Group.

23 Share capital

Authorised, issued, fully paid and registered share capital	2008 HRK millions	2007 HRK millions
81,888,535 ordinary shares of HRK 100 each	8,189	8,189

The number of shares in issue remained unchanged between 1 January 1999 and 31 December 2008.

24 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 share capital. Legal reserves that do not exceed the above amount can only be used to cover current year or prior year losses. If the legal reserves exceed 5% of the share capital they can also be used to increase the share capital of the Company.

25 Reconciliation of movements in equity

	Subscribed share capital HRK millions	Legal reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Total HRK millions
Balance as at 1 January 2007, as reported	**8,189**	**403**	**12**	**4,127**	**12,731**
Adjustment due to vacation accrual recording	-	-	-	(34)	(34)
Balance as at 1 January 2007, restated	**8,189**	**403**	**12**	**4,093**	**12,697**
Allocation of net income	-	6	-	(6)	-
Paid dividends	-	-	-	(2,617)	(2,617)
Total recognised income and expense for the year	-	-	(10)	2,473	2,463
Balance as at 31 December 2007	**8,189**	**409**	**2**	**3,943**	**12,543**
Paid dividends	-	-	-	(2,421)	(2,421)
Total recognised income and expense for the year	-	-	(3)	2,321	2,318
Balance as at 31 December 2008	**8,189**	**409**	**(1)**	**3,843**	**12,440**

In April 2008, the General Assembly of the Company declared a dividend payment to the shareholders resulting from results of the Company for 2007 in the amount of HRK 2,421 million (HRK 29,56 per share) that was paid in May 2008 (2007: HRK 2,617 million, HRK 31.96 per share). In February 2009 Management Board proposed a dividend in the amount of HRK 2,457 million (HRK 29.99 per share). HRK 1,051 million will be paid as advance dividend subject to approval of the Supervisory Board, while HRK 1,406 million will be paid from current year profits and retained earnings subject to decision of the General Assembly.

26 Other accruals

	2008 HRK millions	2007 HRK millions
Variable salary to employees	86	37
Unused vacation	33	27
Handset budget programme	37	25
Loyalty programme	32	21
Accrued tax liability	-	39
Other	4	-
	192	**149**

27 Commitments

a) Operating lease commitments

The Group has operating lease commitments in respect of buildings, equipment and cars.
Operating lease charges:

	2008 HRK millions	2007 HRK millions
Current year expense (Note 4)	**203**	**128**

Future minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

	2008 HRK millions	2007 HRK millions
Within one year	134	124
Between 2 and 5 years	494	445
Greater than 5 years	466	494

The contracts relate primarily to property leases and car leases.

b) Capital commitments

As at 31 December 2008, the Group was committed under contractual agreements to capital expenditure as follows:

	2008 HRK millions	2007 HRK millions
Intangible assets	117	46
Property, plant and equipment	264	305
	381	**351**

28 Contingencies

a) Litigation

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 provision was established (see Note 22) and except for claims where outcome cannot be reliably determined.

VIPnet d.o.o. (a competitor) complained to the Competition Protection Agency regarding Frame Agreements that T-HT and T-Mobile Croatia d.o.o. signed with their key and large business clients that allegedly contain anti competitive clauses. The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Protection of Market Competition Act. The Group delivered to the Agency all requested Frame Agreements and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceedings for assessing whether the Company and T-Mobile have abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Agency brought decision stating that HT d.d. and T-Mobile Croatia d.o.o. abused their dominant position by conclusion of these Frame agreements. The agency ordered a modification of some provisions in several of the analysed Frame Agreements. Although this request was fulfilled, the Group used its right to challenge the decision before the Administrative Court. In the decision, inter alia, it was stated that it would initiate proceedings before the Misdemeanour Court against T-HT and T-Mobile d.o.o. for determining whether the misdemeanour occurred and, if yes, for assessing the penalty. Misdemeanour proceedings have been initiated. T-HT and T-Mobile have submitted a first memo containing a written defence and expect a first hearing before the Misdemeanour Court in spring this year. The penalty for violations of the Protection of Market Competition Act could amount up to 10% of the annual HT d.d. and T-Mobile Croatia d.o.o. turnover.

A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT - Optima Telekom d.o.o to the Croatian Telecommunications Agency (Croatian Agency for Post and Telecommunications under the 2008 Law) in June 2006. The Agency has now referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether a misdemeanour has been committed. The decision of the telecommunications inspector is still pending, however, no advancement in this case occurred. It should be pointed out that the penalty for violations of the Telecommunication Act could amount between 1% and 5% of the annual turnover of the T-Com business unit. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.

T-HT and T-Mobile are vigorously defending both these situations. There is no history of significant settlements in Croatia under either the Competition Act or imposed by misdemeanour courts. Due to lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the likelihood of the possible outcome of these cases, however management believes that any settlement will be significantly less than maximum penalties outlined above.

b) Billing interval and Consumer Act claims

On 29 January 2004, State Inspectorate of the Republic of Croatia (hereinafter: the State Inspectorate) started an investigation on the implementation of the provisions of the Consumer Protection Act regarding a method of charging voice services. The management of the Company believes that the substance of the above mentioned investigation was transferred to the Consumer Fraud Litigation while claimants being the same.

However, there has been no development on this issue since mid 2004 and Company believes that case falls under relative statute of limitations. Besides, a new Bylaw on telecommunication services was brought into force as 1 January 2005. This Bylaw requires the Company to introduce at least one tariff package that will have a billing interval of one (1) second.

Immediately after the Bylaw on telecommunication services entered into force, T-HT had introduced a new tariff system with a per second billing interval. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than 1 second which was the subject of the State Inspectorate investigation.

The Company is currently involved in legal proceedings for alleged breach of the Croatian Consumer

Act. The claimants are residential customers of the Company (as well as consumer protection association). They contend that the Company's monthly access charges in its consumer contracts are unjust and in breach of the Consumer Act.
The claimants are also, similarly as in the above described case of State Inspectorate investigation, contending the Company's billing interval of 60 seconds. The Company has been informed that approximately 42,000 consumers signed a collective petition in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitions would be invalid.
The Company's legal advisors have assessed that the maximum exposure with respect to the 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.
The Company vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. It believes that it should win on appeal. Management and T-HT's legal advisers consider that this claim is without merit and the Company considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government, and that adverse settlement of this case is remote. Furthermore, the tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.
On 12 April 2007, the County Court of Zagreb announced a judgement against the Company and in favour of the six claimants resulting in a potential settlement of HRK 12 thousand for the period claimed for and including interest to 30 June 2007. Since the judgement has been made, four members of the Consumer Association filed individual claims before the Zagreb Municipal Court based on the same substance as adjudicated by the non-final Consumer Fraud Litigation judgement. Both HT d.d. and the State Attorney objected to these claims. The Company believes that individual claims can not even be discussed while the substance stands under appeal within Consumer Fraud Litigation.
Within the litigation and after delivery of the written judgment, all of the litigants (Plaintiff - Consumer Association, Municipality State Attorney representing the Republic of Croatia and the Company) have submitted an Appeal against the Court of First instance before Zagreb County Court.
In mid September 2007 the Consumer Association was rejected in its request for the prolongation of the execution of HANFA's resolution on Prospectus approval and also with its request filed before the Zagreb Municipality Court for a temporary injunction forbidding the RoC and T-HT collecting further initial public offers for ordinary shares and GDR's.
On 20 September 2007 the CA filed two lawsuits against HANFA before the Administrative Court of the Republic of Croatia asking for Prospectus approval nullification including the instruction for process renewal. Early January 2009 the company received the information for its external lawyer that both lawsuits were rejected by the Administrative Court of the Republic of Croatia.
T-HT's lawyers remain of a firm belief that the judgement of the Zagreb Municipality Court from 12 April 2007 will not stand before the Appellation Court provided that an unbiased judge takes the case and no extra-legal influence exists.

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 11), on 16 September 2008 the Company received the lawsuit filed by the Zagreb Digital City Ltd. branch of the Zagreb Holding Ltd. (hereinafter: ZHZDG) against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in amount of 120 millions HRK plus interest.
The suit is based on the legal acts adopted by the Administration and Assembly of the City of Zagreb in years 2006 and 2007 by which DTI has been declared a communal infrastructure owned by the City of Zagreb. These acts have been challenged by the Company before the Constitutional Court of the RoC and the suit was filed in front of the Commercial Court in Zagreb claiming that contracts concluded

between ZHZDG and other operators based on legal acts in question are to be declared invalid. These legal proceedings are still ongoing.
The Company's attorney in the case of ZHZDG lawsuit who is also the representative of the Company in the ongoing proceedings in front of the Constitutional and Commercial courts, is of a firm belief that petitioner ZHZDG cannot succeed with its claim neither in the part of DTI ownership determination nor in the part of 120 million HRK claimed payment, if the court decision will be based on the positive legislation of the RoC. In March 2008 the Croatian Agency for Post and Electronic Communications (then HAT, now HAKOM) published the Terms for Joint Use of Distributive Telecommunications Infrastructure (DTI), which should serve as a set of rules aimed at (i) clearing up of the present state of affairs and (ii) eliminating future doubts as to joint use of the DTI. If enforced properly, these Terms could bring, to a certain extent, orderliness to the issue.
No adjustments have been made to these consolidated financial statements relating to any of these matters.

29 Balances and transactions with related parties

The transactions specified in the table below primarily relate to the transactions with the companies owned by Deutsche Telekom AG (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 year ended 31 December 2008 and 2007. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 36 million (2007: HRK 42 million).

The main transactions with related parties during 2008 and 2007 were as follows:

Related party:	**Revenue 2008 HRK millions**	Revenue 2007 HRK millions	**Expenses 2008 HRK millions**	Expenses 2007 HRK millions
Deutsche Telekom AG, Germany	24	29	13	9
HT Mostar, Bosnia and Herzegovina	47	30	73	54
T-Mobile, Germany	27	2	17	18
Others	64	55	57	85
Total international settlements	162	116	160	166
Deutsche Telekom AG, Germany	-	-	54	36
T-Systems Enterprise services, Germany	-	-	4	3
Others	-	-	-	1
Total intercompany services	-	-	58	40
T-Systems Enterprise services, Germany	-	-	-	8
Deutsche Telekom AG, Germany	-	-	-	2
Others	-	-	1	3
Total capital expenditures	-	-	1	13
Total related parties	162	116	219	219

The balance sheet includes the following balances resulting from transactions with related parties:

Related party:	Receivables 2008 HRK millions	Receivables 2007 HRK millions	Payables 2008 HRK millions	Payables 2007 HRK millions
Deutsche Telekom AG, Germany	5	3	1	1
HT Mostar, Bosnia and Herzegovina	16	13	20	30
T-Mobile, Germany	3	4	41	40
Others	16	17	78	69
Total international settlements	40	37	140	140
Deutsche Telekom AG, Germany	-	-	9	9
T-Systems Enterprise services, Germany	-	-	3	10
Others	-	-	1	1
Total intercompany services	-	-	13	20
Total related parties	40	37	153	160

The Group operates in Croatia in the telecommunications market. As a result of Group's strategic position within the Croatian economy, a portion of its business is transacted with the Croatian Government, its departments and agencies and companies owned by the Croatian Government. The Group provides telecommunications services to the Government of Republic of Croatia, its departments and agencies and companies owned by the Croatian Government on normal commercial terms and conditions, such as are no more favourable than those available to other customers. The telecommunications services provided to the Government of Republic of Croatia, its departments and agencies and companies owned by the Croatian Government do not represent a significant component of the Group's revenue.

Compensation of the Supervisory Board

As specified by the Company, 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 proceeding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the proceeding month is paid while any other member receives the amount of one average net salary of the employees of the Company paid in the proceeding month. DTAG representatives do not receive any remuneration for the membership in the Supervision due to a respective policy of DTAG. In the financial year of 2008, the Company paid a total amount of HRK 0.6 million (2007: HRK 0.3m) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

In 2008 the total compensation paid to key management personnel of the Group amounted to HRK 40 million (2007: HRK 37 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries, the Executive Board of T-Com and the executive directors of the Company, who are employed by the Group.

30 Financial risk management objective and policies

The Group is exposed to international service-based markets. As a result, it 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 counter parties having 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.
Group considers that its maximum exposure is reflected by the amount of debtors (see Note 17) net of provisions for impairment recognised at the balance sheet date.
Additionally, the Group is exposed to risk through cash deposits in the banks. Management of the risk is focused on dealing with most reputable banks in foreign and domestic ownership in the domestic market and on contacts with the banks on a daily basis. For all domestic banks with foreign ownership Group received guarantees for deposits given from parent banks which have minimum rating of BBB+.

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 investments.

	Year ended 31 December 2008 HRK millions	Year ended 31 December 2007 HRK millions
Trade and other payables		
Due in 0 - 30 days	1.306	1.346
Due in 31 - 60 days	29	44
Due in 61 - 90 days	42	21
Due in 91 - 120 days	131	18
Due in > 120 days	82	13
Total	**1.590**	**1.442**

	Year ended 31 December 2008 HRK millions	Year ended 31 December 2007 HRK millions
Long-term loans and other long-term liabilities		
On demand	-	-
Less than 3 months	-	-
3 to 12 months	5	2
1 to 3 years	3	3
3 to 5 years	3	3
> 5 years	10	12
Total	21	20

c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash deposits in banks.

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

	Increase/decrease in basis points	Effect on profit before tax HRK millions
2008		
Croatian kuna	+100	46
	-100	(46)
Euro	+100	7
	-100	(7)
2007		
Croatian kuna	+50	29
	-50	(29)
Euro	+50	1
	-50	(1)

d) Foreign currency risk

The Group's functional currency is the Croatian Kuna (HRK). Certain assets and liabilities are denominated in foreign currencies which are translated at the prevailing middle exchange rate of Croatian National Bank at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect short-term cash flows.

Significant amount of deposits in the banks are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency and foreign currency denominated liabilities.

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 before tax due to changes in the fair value of monetary assets and liabilities.

	Increase/decrease in Euro rate HRK millions	Effect on profit before tax HRK millions
2008	+3%	20
	-3%	(20)
2007	+5%	(1)
	-5%	1

e) Fair value estimation

The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date.

The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, long-term receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

f) Capital management

The primary objective of the Group's capital management is to ensure that it support its business and maximise shareholder value. The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves and retained earnings.

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 2008 and 31 December 2007 (see Note 25).

31 Financial instruments

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

	Carrying amount		Fair value	
	2008	2007	**2008**	2007
	HRK millions	HRK millions	**HRK millions**	HRK millions
Financial assets				
Cash and cash equivalents	5,223	3,367	5,223	3,367
Time deposits	213	2,533	213	2,533
Available-for-sale investments, non-current	37	43	37	43
Available-for-sale investments, current	53	93	53	93
Financial liabilities				
Interest-bearing loans	17	18	17	18

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

At 31 December 2008 all investments are recognised at fair value.

32 Service Concession Arrangements

The Group is party to the following concession agreements, none of which are within the scope of IFRIC 12:

a) **Service authorization for the performance of telecommunication services in a fixed network**
With this Agreement, the Government grants HT d.d., as the Concessionaire, the right to provide the following services throughout the territory of the Republic of Croatia:

I. Public Voice Services over a Fixed Public Telecommunications Network
II. International Telecommunications Services,
III. Data Transmission Services,
IV. Domestic and international Leased Line Services,
V. Telecommunications services open to competition in a fixed network in accordance with Article 25 of the Telecommunications Act.

The Concession Agreement was signed on 22 September 1999, with two amendments dated 30 July 2001 and 17 October 2001. After the expiry of HT d.d. exclusive rights in the fixed network on 1 January 2003, the Telecommunications Act required harmonisation of the Concession agreement with provisions of the Telecommunications Act. The harmonisation process finished in February 2007 with an Agreement of the Alignment of the Concession Agreement with the valid Telecommunications Act between the Government of the Republic of Croatia and HT d.d. and an Agreement on Enforcement of the Agreement on Alignment of the Concession Agreement entered into by the Government of the Republic of Croatia, the National regulatory authority (NRA) and HT d.d.
Pursuant to the Agreement on Enforcement, on 20 April 2007 the NRA passed the following decisions granting to HT d.d. the authorisations existing under the current Telecommunications Act for the provision of telecommunications services:

1. Decision on granting the licence for the provision of public voice services in the fixed network
2. Decision on granting the licence for the provision of leased lines
3. Decision on granting the licence for the leasing of telecommunications network or its parts
4. Decision on granting the licence for the provision of telecommunications services with usage of a free radio-frequency spectrum
5. Notification for the provision of transmission of, inter alia, voice, sound, data, documents, images without the use of the radio-frequency spectrum, except for public voice services
6. Decision granting approval to establish connections with telecommunications networks of other countries

These decisions confirmed the existence and validity of HT's rights and authorisations existing under the Concession Agreement for the period of 30 years from entry into the Concession Agreement.
However, on 1 July 2008 a new Law on Electronic Communications, in compliance with EU framework, entered into force and introduced general authorization for all electronic communications services and networks. It should be noted that, as under EU framework, individual licenses are granted for certain modalities of usage of radio-frequencies.

The new Law terminated the above mentioned Concession Agreement. Additionally, it provides that a person authorized under previously valid regulations continues to provide services in accordance with the provisions of the new Law. However, the concessions (other than mentioned Concession Agreement), licenses and notifications issued in accordance with previously valid regulations remain in force till the NRA issues certificates as required under general authorization regime introduced by new Law on Electronic Communications.
Pursuant to the new Law on Electronic Communications, NRA passed new by-laws on license fees which entered into force on 1 January 2009. However, the by-laws explicitly state that the licenses are to be paid a year in advance. Consequently, for year 2008 the old license fees system remains in force and it provides as follows:
The licensing fees for second and every other consecutive year of the provision of public voice services, leased lines, leasing the telecommunications network or parts thereof, Internet access services, VoIP service, telecommunications services with usage of a free radio-frequency spectrum and other telecommunications services consisting of transmission of voice, sound, data, documents, images and other provided without use of radio frequency spectrum, amount to 0.1% of the total annual revenue, i.e. all invoiced revenues from the last 12 months, accrued from the provision of

services. Fees for use of numeration and frequencies are not included in the above license fees, but are paid additionally according to amounts prescribed by the valid regulations. The licences can be terminated or suspended in accordance with the Telecommunications Act.

Besides the above license fees, HT d.d. is obliged to pay additional fee in the amount of 0.2 % of the total annual gross revenues realised in the previous year from the provision of telecommunications services and activities, for funding of the operations of National regulatory authority for telecommunications.

Pursuant to the decision of the National regulatory authority dated 28 November 2005 HT d.d. has the obligation to provide Universal telecommunication services, as determined in Article 37 of the Telecommunications Act (Official Gazette No. 122/03, 158/03, 177/03, 60/04, 70/05).

b) **Concession Agreement for Telecommunications Services with the usage of radio frequency spectrum in the global mobile network system - GSM**

Pursuant to this Agreement, T-Mobile d.o.o. has the right to develop and operate telecommunications services with usage of radio frequency spectrum in the global mobile network system - GSM.

Due to additional GSM frequency bands awarded to T-Mobile d.o.o., annex to this Agreement was concluded on 20 March 2008 which means that in addition to 60 paired GSM channels that were granted to T-Mobile d.o.o. by the initial Agreement, T-Mobile d.o.o. was granted 54 more paired GSM/DCS-1800 channels.

Concession duration as defined in this Agreement is 10 years starting on 16 September 1999 after which period and in accordance with the new Electronic Communications Act (ECA), which entered into force on 1 July 2008, T-Mobile d.o.o. will be entitled to provide services and perform its rights based on general authorisation. Licenses for use of the radio frequencies spectrum shall be valid until the expiry of the period for which they were issued, and Croatian post and electronic communications agency (hereinafter: Agency) shall ex officio or upon request of the licensee, where necessary, issue new licenses for the use of the radio frequency spectrum.

Based on this Agreement T-Mobile d.o.o. is obliged to ensure that at least 95% of the population of the Republic of Croatia will be able to access the GSM network from their regular place of residence; and ensure that the GSM network will be accessible from at least 75% of the territory of the Republic of Croatia and to develop the GSM network in such a way that in every moment the network meets certain prescribed quality parameters.

In addition to the initial concession fee paid in amount of HRK 100 million, T-Mobile d.o.o. paid an annual concession fee of HRK 5 million for the GSM Concession until the end of 2008. For the last year of this Agreement validity, Agency has issued the invoice for the concession fee, with the amount which was considerably higher than the one which was defined by the Agreement, i.e. the amount was HRK 19,568,724.18, stating the amendment to the relevant bylaw as the reason for doing so and proposing an Annex to the Agreement which would verify the change of the concession fee. T-Mobile d.o.o. refused to sign proposed annex and paid the undisputable part of the bill - HRK 5 million.

T-Mobile d.o.o. also has to pay the annual radiofrequency fee of HRK 100 thousand per one duplex channel pursuant to the GSM Concession. Apart from this, T-Mobile d.o.o. pays an annual fee of HRK 150 per one mobile radio station subscriber (excluding prepaid users) in GSM, however T-Mobile d.o.o. has the right to collect this fee from its subscribers.

On 1 January 2009 new ordinances entered into force, regulating new fees structure and amounts usage of frequency and numbering resources and for financing Agency's other tasks and they shall be applicable on T-Mobile d.o.o. starting on that date. As per new method of calculation, the fee for the right of radio spectrum usage has been considerably increased; it covers the usage of unpaired radio spectrum 1MHz bandwidth, using the formula in which the parameters are spectrum price unit, spectrum congestion coefficient and population coverage coefficient. Furthermore, for each year of radio spectrum usage, a licence fee is paid, amounting to 0.5% of total annual revenue. The annual fee per one mobile radio station subscriber has been decreased to HRK 120 per year. The radio spectrum usage fee which is paid to Agency amounts HRK 241,809.00 per MHz and the fee for carrying out the other tasks of the Agency has been increased to 0.32% of total annual revenue.

c) Concession Agreement for frequencies for provision of public telecommunications services with the usage of radio frequency spectrum in third generation mobile network system UMTS

Pursuant to this Agreement, T-Mobile d.o.o. has the right to develop and use public mobile telecommunications network and to operate public telecommunications services in the third generation system UMTS on the territory of the Republic of Croatia.

The UMTS Concession Agreement lasts for 20 years starting from 18 October 2004. The Concession may be renewed on the basis of regulations in force at that time.

Transition on general authorisation regime, as described above concerning GSM concession agreement is also applicable on this Agreement.

T-Mobile d.o.o. is obliged to ensure basic service quality requirements and availability of telecommunications network on the basis of the following coverage - at least 25% of the citizens of the Republic of Croatia in the period of 2 years from the grant of the Concession; at least 50% of the citizens of the Republic of Croatia in the period of 5 years from the grant of the Concession.

T-Mobile d.o.o. has to develop UMTS network in such a way that in every moment the network meets certain prescribed quality parameters.

T-Mobile d.o.o. has been granted 2x15 MHz in paired frequency band and 5 MHz in unpaired frequency band.

In addition to the initial concession fee paid in amount of HRK 132 million, T-Mobile d.o.o. currently pays an annual concession fee of 1% of total revenues realised in UMTS mobile network. Agency has issued the invoice for the fifth year of this Agreement validity, decreased in accordance with the above mentioned by-law, so T-Mobile d.o.o. paid the amount of 0.5% of total annual revenue realised in UMTS network. T-Mobile d.o.o. also has to pay the annual radiofrequency fee of HRK 5 million per one assigned frequency block of 5 MHz in UMTS network (altogether 4 blocks).

The secondary legislation that has been mentioned in regard to GSM concession by which the new fees structure and amounts were prescribed, applies in the same manner to UMTS network usage.

33 Share-based payment transactions

Various mid-term incentive plans (MTIPs) exist at the Group’s parent company Deutsche Telekom AG (DTAG) and on T-HT Group level to ensure the competitive total compensation for members of the Board of Management, senior executives and other beneficiaries. The plans promote the medium and long-term value enhancement of the Company, thus aligning the interests of management and shareholders. MTIPs have been issued by DTAG on an annual basis since 2004. Certain members of the Board of HT d.d. participate as beneficiaries of DTAG’s MTIP.

DTAG’s MTIP generally is set up as a cash-based plan linked to two equally weighted, share-based performance parameters - one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

The absolute performance target is achieved if, at the end of the individual plans, DTAG share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average closing price of DTAG shares in XETRA trading at the Frankfurt Stock Exchange during the last 20 days prior to the beginning and end of the plan.

The relative performance target is achieved if the total return of the DTAG share had outperformed the Dow Jones EURO STOXX Total Return Index on a percentage basis during the term of the individual plan. The benchmark is the non-weighted average of DTAG shares (based on XETRA closing prices) plus the value of dividends paid and reinvested in DTAG shares, bonus shares etc., and the non-weighted average of the Dow Jones EURO STOXX Total Return Index during the last 20 trading day prior to the beginning and end of the plan.

Based on the finding of the Supervisory Board General Committee, the Board of Management will establish whether the target has been achieved for DTAG and all participating companies as a whole and will communicate this decision. The aforementioned targets have therefore been applied to all plans issued to date by DTAG.

The MTIP 2004 expired on 31 December 2006 while MTIP 2005 expired on 31 December 2007. Since the performance target was not met by either MTIP, no payments were made. Until reporting date, the Group has not received any information by DTAG on the final decision with respect to the MTIP of 2006 or any later year.
Additionally, T-HT Group is remunerating its key employees with its own mid-term incentive plan (IPO MTIP 2008) independent from the aforementioned plans issued by DTAG.
The duration of IPO MTIP 2008 covers the period from 1 January 2008 to 31 December 2010. The payment of the awarded sum is subject to the achievement of two share value based performance targets. Upon expiry of the term of the plan, the Supervisory Board shall determine whether each of the targets has been achieved. On the basis of the findings of the Supervisory Board the Management Board shall define and announce the level of target achievement. Both targets are equally weighted and cannot be changed during the IPO MTIP 2008 duration.
While the first target is based on the fixed EBITDA multiple, the other target is based on comparison of the share price movement compared to the complex return index. If both targets are achieved, the participants will be rewarded with the total amount of the targeted incentive. If only one target is reached, the participants receive 50 percent of the targeted incentive. The incentive themselves consist of 15 percent, 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2008, depending on the management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual amount of total fixed salary and the amount of variable salary in case of a 100 percent target achievement.

The total expenses for all MTIP plans recognised for employee services received during the year are shown in the following table:

	2008 **HRK millions**	2007 HRK millions
Expense arising from cash-settled share-based payment transactions	**3**	1

34 Auditors' fees

The auditor of the Group's financial statements for the year ended 31 December 2008, Ernst & Young, has rendered services in the total amount of HRK 4 million in the financial year (2007: HRK 7 million). Services for 2008 relate to the rendered audit and review of financial statements, with the minor exception of costs for a seminar. Services for 2007 relate to the rendered audit and review of financial statements, IPO related procedures and IT related project.

35 Subsequent events

Croatian Agency for Post and Electronic Communications imposed reduction of interconnection charges in 2009. Estimate of financial effect could not be made until the date of this report. Starting from 16 January 2009 there is a Finance police review of the GSM and UMTS concession agreement for the period 1 January 2005 until 31 December 2008. The Group assessed and declared no risk thereon and does not expect a material provision in this respect.
No other events or transactions have occurred since 31 December 2008 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 mention in a note to the financial statements.

Disclaimer

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities of the Company nor should they or any part of them or the fact of their distribution form the basis, or be relied on in connection with, any contract or investment decision in relation thereto.

The third party information contained herein has been obtained from sources believed by the Company to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated herein are complete and accurate and that the opinions and expectations contained herein are fair and reasonable, no representation or warranty, expressed or implied, is made by the Company or its advisors, with respect to the completeness or accuracy of any information and opinions contained herein.

This document contains certain forward looking statements with respect to financial conditions, results of operations and business of the Group. These forward-looking statements represent the Company's current views, expectations or beliefs concerning future events. Such statements are subject to risk and uncertainties, most of which are difficult to predict and are generally beyond Company's control. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these Statements prove incorrect, Company's /Group's actual results may be materially different from those expressed or implied by such statements. Company can offer no assurance that its expectations or targets will be achieved.

In addition, some key performance indicators utilized by the Company (non-IFRS measures, such as EBITDA) serve as additional indicators of the Group's operating performance and may be calculated differently by other companies operating in the sector. However such measures are not replacement for measures defined and required under IFRS. Therefore the non-IFRS measures and key performance indicators used in this document may not be directly comparable to those of the Group's competitors.

Index

HT-Hrvatske telekomunikacije d.d.
Savska cesta 32
10000 Zagreb, Croatia
www.t.ht.hr