

# Annual Report 2009



## Financial highlights - IFRS HT accounting policies

### T-HT Group

in HRK million	Jan - Dec 2009	Jan - Dec 2008	% of change 09/08
<b>Revenue</b>	<b>8,517</b>	<b>8,791</b>	<b>-3.1 %</b>
EBITDA before exceptional items	3,859	4,009	-3.8 %
EBITDA	3,695	3,964	-6.8 %
EBIT (Operating profit)	2,294	2,602	-11.9 %
<b>Net profit</b>	<b>2,023</b>	<b>2,310</b>	<b>-12.4 %</b>
EBITDA margin before exceptional items	45.3 %	45.6 %	-0.3 p.p.
EBIT margin	26.9 %	29.6 %	-2.7 p.p.
Net profit margin	23.8 %	26.3 %	-2.5 p.p.
CAPEX	1,553	1,624	-4.4 %
CAPEX/ Revenue ratio	18.2 %	18.5 %	-0.3 p.p.
	<b>At 31 Dec 2009</b>	<b>At 31 Dec 2008</b>	<b>% of change 09/08</b>
ROE	16.6 %	18.5 %	-1.9 p.p.
Financial leverage ratio	0.20	0.22	-7.9 %
Quick ratio	3.17	3.14	1.0 %
Number of employees	6,116	6,487	-5.7 %

### Balance Sheet

in HRK million	At 31 Dec 2009	At 31 Dec 2008	% of change 09/08
Total non current assets	8,175	7,977	2.5 %
Total current assets	6,297	7,227	-12.9 %
<b>Total assets</b>	<b>14,472</b>	<b>15,205</b>	<b>-4.8 %</b>
Total issued capital and reserves	12,012	12,440	-3.4 %
Total non current liabilities	556	565	-1.5 %
Total current liabilities	1,904	2,200	-13.5 %
<b>Total equity and liabilities</b>	<b>14,472</b>	<b>15,205</b>	<b>-4.8 %</b>

## Operational highlights

### T-Com Segment

Key operational data	Dec 2009	Dec 2008	% of change 09/08
<b>Fixed telephony</b>			
Total POTS and FGSM mainlines	1,390,568	1,444,356	-3.7 %
Total ISDN mainlines	93,020	105,767	-12.1 %
<b>Total (POTS+FGSM+ISDN)</b>	<b>1,483,588</b>	<b>1,550,123</b>	<b>-4.3 %</b>
Payphones	8,034	8,948	-10.2 %
<b>Total mainlines (POTS+FGSM+ ISDN+Payphones)</b>	<b>1,491,622</b>	<b>1,559,071</b>	<b>-4.3 %</b>
<b>Total Traffic (thousands of minutes) Jan - Dec</b>	<b>3,464,391</b>	<b>3,797,966</b>	<b>-8.8 %</b>
To national fixed network	2,926,481	3,177,675	-7.9 %
To national mobile network	310,937	365,003	-14.8 %
To VAS	65,346	66,119	-1.2 %
To international networks	119,445	133,210	-10.3 %
Remaining traffic <sup>(1)</sup>	42,182	55,959	-24.6 %
Average monthly voice revenue per voice access (ARPA) (HRK)	138	150	-7.9 %
<b>Internet services</b>			
<b>Internet access customers</b>			
Number of Internet subscribers	596,978	551,869	8.2 %
Dial-up users	766,429	761,324	0.7 %
Active dial-up users	41,983	79,215	-47.0 %
ADSL mainlines	554,995	472,654	17.4 %
IPTV customers	235,980	135,573	74.1 %
Fixed-line customers	1,152	1,026	12.3 %
VPN connection points	3,528	2,395	47.3 %
<b>Data services</b>			
<b>Total Data lines and connection points</b>	<b>6,153</b>	<b>6,289</b>	<b>-3.7 %</b>
<b>Wholesale services</b>			
<b>Customers</b>			
CPS	227,879	235,869	-3.4 %
NP	348,210	272,687	27.7 %
ULL	123,054	87,072	41.3 %

(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 2009	Dec 2008	% of change 09/08
<b>Subscribers</b>			
No. of pre-paid subscribers	1,938,867	1,879,377	3.2 %
No. of post-paid subscribers	919,991	810,615	13.5 %
Total T-Mobile subscribers	2,858,858	2,689,992	6.3 %
% of post-paid subscribers	32.2%	30.1%	2.0 p.p.
<b>Minutes of use (MOU)</b>			
MOU per average subscriber	112.0	122.3	-8.5 %
<b>Average revenue per user (ARPU) (HRK)</b>			
Blended ARPU (monthly average for the period in HRK) <sup>(4) i (5)</sup>	98.0	117.0	-16.3 %
Blended non-voice ARPU (monthly average for the period in HRK)	23.1	24.5	-5.5 %
<b>SAC per gross add</b>	<b>198.7</b>	<b>269.9</b>	<b>-26.4 %</b>
<b>Churn rate (%)</b>			
Churn rate total	1.9	1.4	0.5 p.p.
Churn rate post-paid	0.8	0.7	0.1 p.p.
Churn rate pre-paid	2.3	1.7	0.6 p.p.
<b>Penetration <sup>(2)</sup></b>	<b>137.7</b>	<b>132.4</b>	<b>5.3 p.p.</b>
<b>Market share of subscribers (%) <sup>(2)</sup></b>	<b>46.7</b>	<b>45.8</b>	<b>1.0 p.p.</b>
<b>Market share by revenue (%) <sup>(1) (3)</sup></b>	<b>48.7</b>	<b>50.1</b>	<b>-1.3 p.p.</b>

(1) Market share by net revenue

(2) Source: published VIPnet's and Tele2's quarterly report for 4Q 2008. Number of subscribers for VIPnet and Tele2 for 4Q 2009 are internally estimated.

(3) Source: Telekom Austria Quarterly report for 4Q 2008. Tele2 Quarterly report for 4Q 2008. VIPnet's and Tele 2 total revenue for 2009 are internally estimated. Market shares are based on unconsolidated revenue for T-Mobile (i.e. not net of T-Com revenue).

(4) Blended ARPU is effected by restating of previous year for IFRIC 13.

(5) 6% contribution fee on mobile revenues is included in blended ARPU for 2009.

### 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.

Following the merger of T-Mobile d.o.o. with HT - Hrvatske telekomunikacije d.d. (HT d.d.), the Group is from 1 January 2010 organized into two business units: Business and Residential.

Therefore, references to "T-Mobile" are to business operations performed in previous periods by the Company's wholly-owned subsidiary, T-Mobile Croatia d.o.o.

References to "T-Com" are to business operations including the fixed network, wholesale, broadband, data, on-line services and ICT solutions that were in previous years performed by the Company's business Unit T-Com.

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.

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

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

# Content

<b>II</b>	<b>Financial Highlights</b>
<b>III</b>	<b>Operational Highlights</b>
<b>7</b>	<b>Introduction</b>
8	Letter to Shareholders
11	Corporate Profile
12	Investor Information
16	Management Board
19	Supervisory Board
20	Supervisory Board's Report
25	Corporate Governance Code Compliance Statement
<b>31</b>	<b>Business Review 2009</b>
32	Croatian Telecommunication Market Overview
34	Regulatory Environment
37	Group's Strategy
39	Organization of the Group
41	T-Com
47	T-Mobile
50	Network and Information Technologies
52	Human Resources
<b>55</b>	<b>Corporate Social Responsibility</b>
56	Donations and sponsorships
59	Ecology
<b>61</b>	<b>Financial Review 2009</b>
62	Consolidated Revenue
62	Consolidating Operating Expenses
62	T-HT Group Profitability
63	Financial Position
63	CAPEX
64	Financial Results of the T-Com Segment
65	Financial Results of the T-Mobile Segment
<b>67</b>	<b>Consolidated Financial statements</b>
68	General information
69	Independent Auditor's Report
72	Consolidated statement of comprehensive income
73	Consolidated statement of financial position
75	Consolidated statement of cash flows
76	Consolidated statement of changes in equity
77	Notes to the consolidated financial statements
<b>124</b>	<b>Index</b>





# I. Introduction

Letter to Shareholders

Corporate Profile

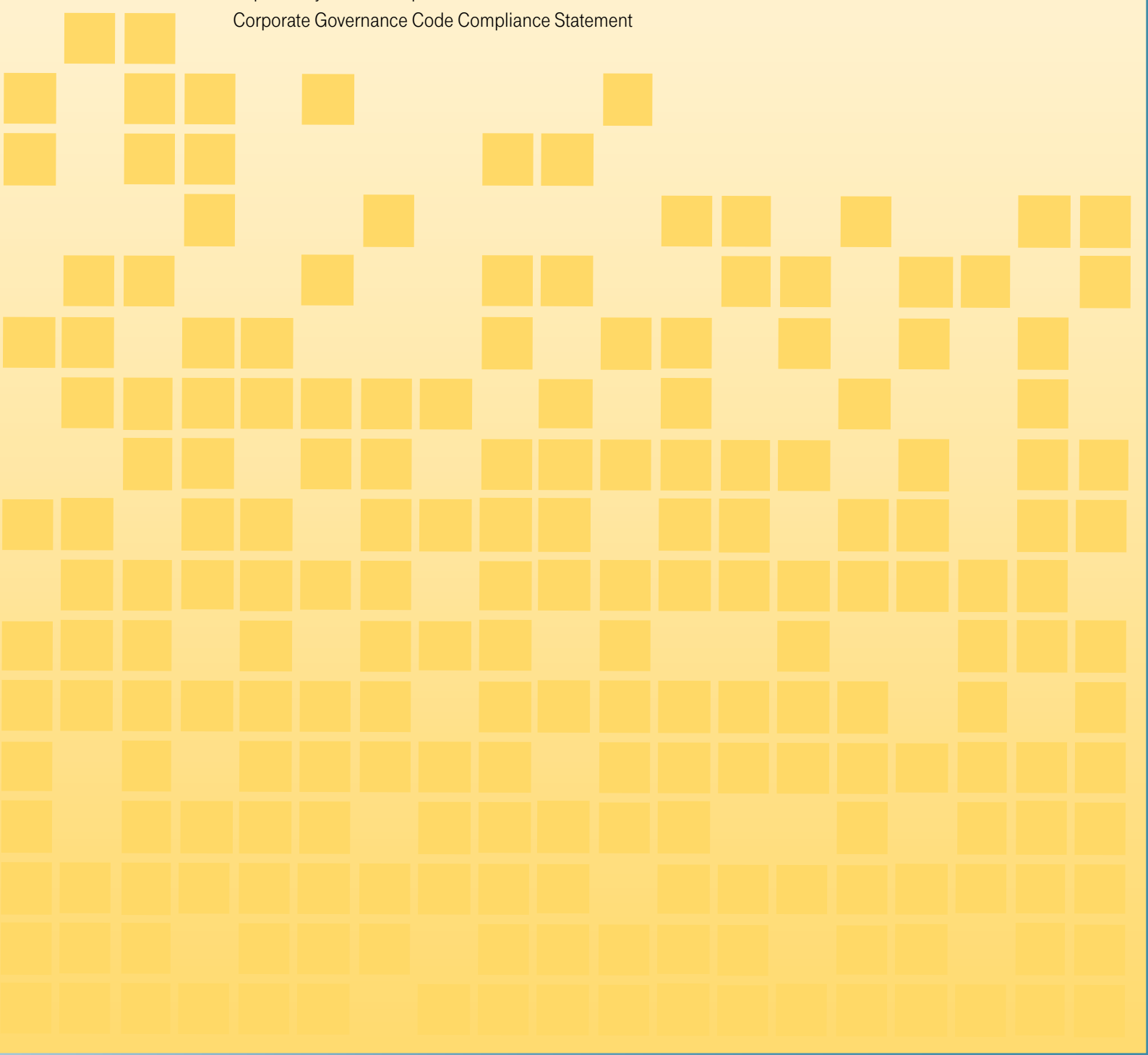
Investor Information

Management Board

Supervisory Board

Supervisory Board's Report

Corporate Governance Code Compliance Statement





# Letter to Shareholders

8

Introduction



## Dear Shareholders,

In a year characterized by extremely unfavorable economic conditions, both globally and in Croatia, T-HT again confirmed its leadership of the Croatian telecommunications market. The challenges we were facing were not neglected, on the contrary, being aware of our economic environment, throughout the year we openly pointed out the impact they would have on our business. Despite the economy and ever-increasing competition, we achieved good business results, made substantial investments in infrastructure and began a new chapter in our business by merging the operations of T-Com and T-Mobile into an integrated and even more customer-focused organization.

Our new operational focus on residential and business customers will enable us to respond even faster to customer and market requirements, driving our own company forward and at the same time, raising standards across the entire Croatian telecommunications sector.

Furthermore, investors saw a 37.8% increase in the value of T-HT shares 2009, a performance that exceeded the CROBEX index by 20pp.

Considering the Group's good performance and its healthy cash position, the Management Board and the Supervisory Board have made a proposal to the



General Assembly of HT-Hrvatske telekomunikacije d.d. to set the dividend at HRK 34.05 per share.

Looking back at 2009, the Croatian telecommunications experienced familiar trends: strong development of broadband and interactive television, growing demand for web content, decreasing demand for fixed-line telephony in line with global trends; mobile telephony reaching saturation, mobile broadband and new 3G devices driving an increasing appetite for high-speed mobile internet.

T-Mobile, our subsidiary, maintained its market leadership by revenues and subscriber numbers, which now exceed 2.8 million. We believe this is due to our continuing commitment to innovative pricing offers and constant improvement of services to meet customers' needs.

For the first time, however, T-Mobile experienced a decline in revenues as customers tightened personal spending in the recession, and because of new taxes, including a 6% excise tax on mobile telephony services, introduced by the Government in August 2009.

T-Com, our fixed-network business unit, achieved excellent results from broadband-based internet services, increasing the number of ADSL subscribers by 17.4% nearly 555,000. Our interactive television service was also a resounding success, increasing subscribers number by 74.1% to reach almost 236,000 homes at the end of the year - a feat achieved with an excellent variety of program packages, constant service upgrades and attractive marketing offers.

The importance of content is also reflected in the leading position of our information portal - tportal, which was redesigned in 2009 with new sections being added to its already broad range of content. Users can now access tportal through PDAs and mobile handsets and receive content updates via SMS and T-Mobile WAP as well as on social networks such as Facebook and Twitter.

T-Com's wholesale services continued to generate increasing numbers of ULL users, which is the result of market liberalization and the services offered in this segment.

At the same time as T-HT continued to develop technologically advanced and attractive services in the telecommunications sector, we turned our attention to Information and Communications Technologies (ICT), entering the market in November 2009 with a range of ICT products and services for small and medium enterprises.

Despite a 5.0% fall in Croatian GDP, T-HT revenues fell 3.1% to HRK 8,517 million. Of this HRK 274 million fall in revenues, HRK 207 million are attributable to the 5.0% fall in T-Mobile revenues, which occurred mostly in the second half of the year as the recession and impact of the Government's crisis-management measures became felt. As in previous years, revenue from fixed telephony and wholesale decreased by 10.2% and 3.3% respectively. By contrast, revenue from Internet services increased by 27.7% to HRK 1,145 million, clearly showing the value consumers place on broadband and related services, such as MAXtv.

EBITDA before exceptional items fell by 3.8% to HRK 3,859 million, which is the result of revenues declining slightly more than costs. The fall in operating costs was due not only to the decrease in variable costs associated with falling revenues, but also to the Group's continuing commitment to cost control. Savings were achieved despite an increase in staff costs due to the provisions made for severance payments related to implementation of a headcount optimization program.

Taking into consideration the economic situation, the Group deemed it prudent to reduce capital expenditure to a level, which will still enable us to maintain the high quality and efficiency of the telecommunications system, even as demand for broadband and mobile Internet services continues to increase. As a consequence, capital expenditure was reduced by 4.2% to HRK 1,553 million. The majority

of capital investments were directed to the extension of broadband access and advanced services such as MAXtv, and to development of 2G and 3G networks and related platforms.

The success of our operations is reflected not only in our market leadership and strength, but also in our corporate citizenship. The high standards observed in our actions can also be seen in the numerous activities we undertake for the benefit and development of society - in cooperation with educational, cultural and science institutions and nongovernmental organizations by providing T-HT resources and sponsorship for socially beneficial activities and by the continuing implementation of our environmental protection strategy. This is also made evident by our partnership with UNICEF; our donations to health institutions, particularly to emergency medical assistance and local health care centers; our financial support to the Museum of Contemporary Art, the KulTunist Project, the T-Mobile INmusic Festival; and our sponsorship of the Croatian National Soccer Team.

The coming year will bring many challenges. Taking into account the extent of the crisis in Croatia, the drop in GDP and the alarming increase of unemployment, as well as decrease of personal spending, due to, among other things, introduction of crisis tax, and considering the 6% excise tax on mobile services, we expect a demanding business period.

In the face of these pressures we will remain focused on maintaining leadership in all segments of the telecommunications market. Our priorities will remain unchanged: growth, improvements in quality and efficiency and the increased satisfaction of our customers.

I would like to express my thanks to all shareholders for the trust placed in us, to the Group's employees for their committed and diligent work, and to my colleagues from the Management Board and Supervisory Board for their support in the year 2009.

Zagreb, March 2009



Ivica Mudrinić  
President of Management Board

## 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. As of 1 January 2010, the Group conducts its business through its Residential and Business units, having previously conducted business through T-Com (which was not a separate legal entity), T-Mobile and other subsidiaries.

The basic activities of HT-Hrvatske telekomunikacije d.d. and subsidiary companies comprise the provision of electronic communications services and the design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony lines services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet services, data transmission services (lease of lines, ATM, X.25 and Frame Relay), operating with 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 a 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 a 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 provided 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). From the 32.5% of shares, 25% went to Croatian retail, while 7.5% were distributed among 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, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, while private and institutional investors hold 38.5%.

In October 2009, an agreement was signed by which T-Mobile Croatia was merged into HT-Hrvatske telekomunikacije d.d. The merger entered into the court register on 31 December 2009 and with the expiry of 31 December 2009 all the effects of the merger came into force whereby T-Mobile ceased to exist. The merger came into effect on 1 January 2010, after which time the Group was organised into Residential and Business units.

## Economic environment and share price performance

After the turbulence that hit the world's investors in the second half of 2008, stock markets recovered well in 2009, driven mainly by positive sentiment that the largest economies were emerging from recession.

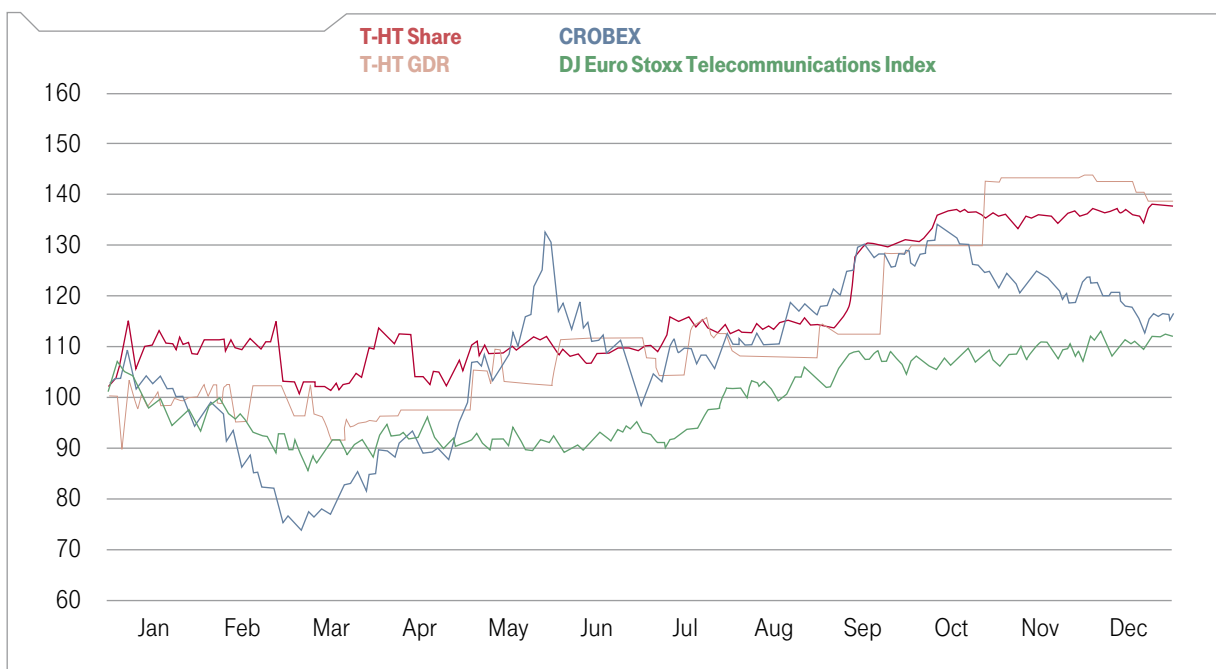
For economies such as Croatia's, however, confidence in the stock market took longer to return. Following a poor year in 2008, volumes on the Zagreb Stock Exchange halved again in 2009. The benchmark CROBEX index reached a low in March, but recovered strongly in the following months to end 16.4% up on the year, even after a fall in the final quarter. Although commendable in such a poor economy, its 16.4% gain was scant compensation for the 67.1% fall it suffered in 2008.

The Croatian economy provided a difficult environment for market recovery. Poor corporate results, liquidations, rising unemployment, increased taxes, new levies, crises in government and scandals in business all had an impact on confidence.

But with a good tourist season, continuing financial stability, strong and well-received initiatives by the new Prime Minister, NATO accession and the continuation of EU accession talks, confidence is again driving the market upwards.

Against this backdrop, T-HT shares performed well, beating the CROBEX average by more than 20 percentage points for the second year in a row. This good performance was achieved despite new taxes on mobile services levied from August 2009, and we believe it reflects the importance of telecommunication services to the economy and the attractiveness of T-HT shares as an investment. In addition, T-HT shares strongly outperformed the Dow Jones Euro Stoxx Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some Europe's largest telecom companies), more than compensating for the underperformance against the index in 2008.

**T-HT Share and GDR as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index 1 January 2009 - 31 December 2009.**



T-HT Shares ended the year at HRK 274.50, representing an increase of 37.8% on the HRK 199.22 at which they closed in 2008. The year's highest closing price was HRK 274.95, the lowest being HRK 201.03 (source: Zagreb Stock Exchange).

T-HT was once again the most traded share on the Zagreb Stock Exchange, with HRK 1.8 billion of turnover, accounting for 23.7% of the ZSE's total trade by value of shares in 2009.

As at 31 December 2009, T-HT was the largest company on ZSE, with a market capitalisation HRK 22.5 billion (EUR: 3.1 billion) representing 16.6% of the total market capitalization by value (source: Zagreb Stock Exchange).

At the last revision of the CROBEX index, T-HT's weighting was set at 15% of the index.

Besides T-HT shares being listed on the Official Market of the Zagreb Stock Exchange, Global Depository Receipts (GDRs) - each representing one T-HT Share - are tradable on London Stock Exchange.

### Dividend policy

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

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

### Dividend for the 2008 financial year

In April 2009, the General Assembly of the Company decided on a dividend payment to shareholders in the amount of HRK 2.456 billion (HRK 29.99 per share), representing a dividend payout ratio of 106%.

Pursuant to the above, an advance dividend payment of HRK 12.84 per share was made in March 2009, with the residual amount of HRK 17.15 per share being paid to shareholders in May 2009.

At the end of 2009, this represented a dividend yield of 10.9% on T-HT's closing share price of HRK 274.50, on the final trading day of the year. Using the average closing share price over 2009, HRK 233.78, the dividend yield was 12.8%.

## Dividend proposal for the 2009 financial year

The Management Board and Supervisory Board of HT-Hrvatske telekomunikacije d.d. propose a dividend distribution to shareholders in the amount of HRK 2,788,304,616.75 and the amount of HRK 759,913,016.51 to allocate to retained earnings. The dividend of HRK 34.05 per share will be paid on 17 May 2010.

The total amount of HRK 3,548,217,633.26 represents the sum of HTd.d.'s net income for 2009 in amount of HRK 896,079,447.08, retained earnings from earlier periods in amount of HRK 30,044,477.94 and retained and unallocated income in the total amount of HRK 2,622,093,708.24 formed according to the Merger Agreement signed on 29 October 2009 between T-Mobile Hrvatska d.o.o. and HT - Hrvatske telekomunikacije d.d., and entered into court register on 31 December 2009.

The dividend will be paid to shareholders registered at the Central Clearing Depository Association (SKDD) on the day of the General Assembly, planned for 21 April 2010. The dividend payment shall be executed on 17 May 2010.

### Shareholder Structure as at 31 December 2009

Deutsche Telekom	51.0%
Private and institutional investors	38.5%
War Veterans' Fund	7.0%
Republic of Croatia	3.5%

Total number of shares issued: 81,888,535

Deutsche Telekom is the majority shareholder with a 51% holding. The Croatian War Veterans' Fund owns 7% with the Government of the Republic of Croatia holding 3.5%. Institutional and private investors own the remaining 38.5%.

As at 31 December 2009, more than 250,000 Croatian citizens held T-HT Shares, representing 24.2% of the total share capital of the Company.

### Financial Calendar

	Date
Release of full year 2009 results	February 16, 2010
The General Assembly of the Company	April 21, 2010
Release of first quarter 2010 results	April 30, 2010
Release of first half 2010 results	July 30, 2010
Release of first nine months 2010 results	October 29, 2010

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

16

Introduction



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

## **Ivica Mudrinić**

### **President of the Management Board and CEO**

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.

## **Jürgen P. Czapran**

### **Member of the Management Board Chief Financial Officer**

Jürgen P. Czapran was born in 1952. 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. On 12 February 2007, he was appointed Member of T-HT Management Board and Chief Financial Officer.

### **Irena Jolić Šimović**

**Member of the Management Board  
Chief Operating Officer, Business**

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 Ministry of the Sea, Transport and Communications and Ministry of Immigrations. She has been at HT-Hrvatske telekomunikacije since 1998. She was Executive Director for Corporate Strategy and Business Development until August 2006. She was appointed Member of T-HT Management Board and Chief Human Resources Officer in August 2006. She has been Chief Operating Officer T-Com since October 2008 until December 2009. On 1 January 2010 she assumed the role of Chief Operating Officer Business, with responsibility for the Business unit, including Sales, Marketing, Customer Service, Wholesale and ICT Business Solutions.

### **Branka Skaramuča**

**Member of the Management Board  
Chief Human Resources Officer**

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 of HT in 2002. Since March 1, 2004 has been a Management Board member and Chief Human Resources Officer of 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.

### **Božidar Poldrugač**

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

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. 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 - T-Mobile Croatia. On 13 March 2007, he was appointed Member of the Management Board and Chief Technical and Chief Information Officer Group.

### **Rainer Rathgeber**

**Member of the Management Board and Chief  
Operating Officer T-Mobile, President of the  
Management Board and CEO of T-Mobile Croatia  
until 30 September 2009.**

### **Johan Busé**

**Member of the Management Board  
Chief Operating Officer, Residential**

Johan Busé is appointed MB member and Chief Operating Officer Residential and he will take up his post in HT on 1 April 2010.

### Compensation to the Management Board members in 2009:

In 2009, Ivica Mudrinić, President of the Management Board, was paid a fixed salary contracted in annual gross amount of HRK 2,013,974 in average net monthly instalments of HRK 83,203. Variable part, in accordance with 2008 goals achievement, amounted to HRK 784,220 net. Payment according to MTIP 2006 amounted to HRK 182,644 net. Benefit in kind amounted to HRK 218,270 for company car usage and tax free Christmas bonus.

Jürgen P. Czapan, member of the Management Board, was in 2009 paid a fixed and variable salary contracted in annual gross amount of HRK 3,869,796. The amount of benefit in kind was HRK 291,570 for rental, insurance and other benefits.

Rainer Rathgeber, member of the Management Board, was in 2009 paid a fixed and variable salary contracted in annual gross amount of HRK 4,382,416. The amount of benefit in kind was HRK 354,363 for rental, insurance and other benefits.

Božidar Poldrugač, member of the Management Board, was in 2009 paid a fixed salary contracted in annual gross amount of HRK 1,286,480 in average net monthly instalments of HRK 54,906. Variable part, in accordance with 2008 goals achievement, amounted to HRK 262,533 net. Payment according to MTIP 2006 amounted to HRK 74,400 net. The benefit in kind amounted HRK 182,119 for company car usage, tax free children gift and tax free Christmas bonus.

Irena Jolić Šimović, member of the Management Board, was on the maternity leave since April 1st until October 27th 2009 and in this period her salary was paid at the expense of the Croatian Health Insurance Fund. Ms Jolić Šimović was paid in 2009 a fixed salary contracted in gross amount of HRK 619,037 in period January to April 2009 and for November 2009, in average net monthly instalments of HRK 59,861. Variable part, in accordance with 2008 goals achievement, amounted to HRK 238,554 net. Payment according to MTIP 2006 amounted to HRK 46,537 net. The benefit in kind amounted to HRK 120,285 for company car usage, tax free children gift and tax free Christmas bonus.

Branka Skaramuča, member of the Management Board, was in 2009 paid a fixed salary contracted in annual gross amount of HRK 1,354,242 in average net monthly instalments of HRK 54,934. Variable part, in accordance with 2008 goals achievement, amounted to HRK 68,929 net (from October 1st to December 31st 2008 - since she is MB member of T-HT). Payment according to MTIP 2006 amounted to HRK 101,118 net. The benefit in kind amounted to HRK 158,942 for company car usage and tax free Christmas bonus.

## Guido Kerkoff

Member from 21 April 2009  
President of the Supervisory Board from 4 May 2009

## Michael Günther

President of the Supervisory Board until 21 April 2009

## Dr. sc. Ivica Mišetić

Deputy president

## Fridbert Gerlach

Member

## Dr. Ralph Rentschler

Member

## Josip Pupić

Member

## Siegfried Pleiner

Member

## Kathryn Walt Hall

Member

## Dr. Slavko Leban

Member

## Dr. Steffen Roehn

Member from 21 April 2009

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. To a member of the Supervisory Board who is in the same time the Chairman of the Audit Committee of the Supervisory Board in the amount of 1.5 of the average monthly net salary of the employees of the company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Audit Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the company paid in the preceding month. DTAG representatives do not receive any remuneration for the membership in the 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 2009 is as follows:

### Compensation to the Supervisory Board members in 2009

	Period in which compensation is paid		Gross HRK
	From	To	
Kathryn Hall	1 January 2009	31 December 2009	159,309.37
Slavko Leban	1 January 2009	31 December 2009	121,500.99
Ivica Mišetić	1 January 2009	31 December 2009	186,136.27
Josip Pupić	1 January 2009	31 December 2009	148,909.05

Since the remuneration of the Supervisory Board members is based on net average salary paid to the employees of the Company in previous month, only gross amounts are shown therein.

# Supervisory Board's Report

20

Introduction

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 referred to as "the Company"), consisting, on the day of issuance of this report, of Mr. Guido Kerkhoff, Chairman of the Supervisory Board, Mr. Ivica Mišetić, Ph.D., Deputy Chairman of the Supervisory Board, Dr. Steffen Roehn, Mr. Fridbert Gerlach, Dr. Ralph Rentschler, Mr. Siegfried Pleiner, Ms. Kathryn Walt Hall, Mr. Slavko Leban, M.D and Mr. Josip Pupiće, 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 2009 and on the results of the examination of the business and financial reports for the business year 2009

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 2009,
- the results of the examination of the annual financial statements as of 31 December 2009 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 2009,
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

## Corporate Profile

Deutsche Telekom AG (hereinafter referred to as "DTAG") is the majority owner of the Company with a 51% stake. The Republic of Croatia owns 3.5% of shares. The Croatian War Veteran's Fund (hereinafter referred to as "Fund") owns 7% of shares while private and institutional investors hold 38.5%.

The shares of the Company are included in depository services of the Central Clearing Depository Association 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 five members representing Deutsche Telekom AG, 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 2009, the composition of the Supervisory Board of the Company changed as follows:

The Chairman of the Supervisory Board, Mr. Michael Günther, has resigned from his positions in the Supervisory Board with effect from 21 April 2009.

Mr. Guido Kerkhoff and Dr. Steffen Roehn were elected as new Members of the Supervisory Board as of 21 April 2009. Later, Mr. Guido Kerkhoff was elected as Chairman of the Supervisory Board as of 4 May 2009.

## 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. Guido Kerkhoff, 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 five (5) members.

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

- Activities falling within the Officer's responsibilities of the Member of the Management Board and Chief Operating Officer Fixed and Broadband (COO T-Com) were temporarily performed by the President of the Management Board and CEO, Mr. Ivica Mudrinić, during the absence of Ms. Irena Jolić Šimović due to



maternity leave, i.e. in the period from 1 April to 27 October 2009.

- Mr. Rainer Rathgeber resigned from his position as a Member of the Management Board and Chief Operating Officer Mobile (COO Mobile) effective as of 30 September 2009.
- The Supervisory Board has adopted the new division of competences among Management Board Members connected with the merger of T-Mobile Croatia LLC to HT - Hrvatske telekomunikacije d.d. and creation of Residential and Business units, applicable as of 1 January 2010. In line therewith functions of Chief Operating Officer Fixed and Broadband (COO T-Com) and Chief Operating Officer Mobile (COO Mobile) ceased to exist while functions of Chief Operating Officer Residential (COO Residential) and Chief Operating Officer Business (COO Business) were introduced.
- Mr. Johan Busé was appointed as the Member of the Management Board and Chief Operating Officer Residential (COO Residential), with commencement of his term of office as of 1 April 2010. Until that date these Officer's responsibilities are temporarily added to the function of the President of the Management Board and CEO.
- Tasks set to the function of Chief Operating Officer Business (COO Business) were assigned to Ms. Irena Jolić Šimović, Member of the Management Board.

### Performed supervision during the business year 2009

In 2009 there were five (5) sessions of the Supervisory Board and one (1) telephone conference session. The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company, and the By-Laws on the Work of the Supervisory Board of the Company.

The Supervisory Board passed two (2) out-of-session decisions as follows:

- Decision on granting the prior approval for the proposal of a decision of the General Assembly to give the

authority to the Management Board for the acquisition of Company shares,

- Decision in relation to this acquisition of Company shares stipulating that the Management Board shall need a prior approval of the Supervisory Board to start a process of acquiring and managing of Company shares as well as for any redemption of the acquired Company shares.

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 - Focus on broadband, IPTV development, growth opportunities, customer retention programs, service orientation and focus on customer, IP based services and quality of service, IT main projects, network strategy - platform development, fiber optical infrastructure,
- Broadband penetration, tariff options, cost management programs, investment planning,
- Regulatory framework,
- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system,
- Merger of T-Mobile Croatia LLC to HT - Hrvatske telekomunikacije d.d. and the new organization of HT - Hrvatske telekomunikacije d.d. in relation thereto,
- Corporate Governance, division of competences among Management Board Members and changes in the composition of the Membership of the Management Board as outlined above,
- International activities of the Company,
- Annual Business Plan for 2010 and Strategic Plan for 2011- 2012,
- Reports of the Compensation and Nomination Committee of the Supervisory Board, target-setting and target-achievement proposals related to the MB Members and remuneration proposals,
- Reports of the Audit Committee of the Supervisory Board and updates with respect to the Sarbanes-Oxley (S-OX) compliance and Croatian Audit Act,
- Capital Market trends and Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and the listing of GDR's representing the Company's shares on the London Stock Exchange.

In 2009, the Audit Committee of the Supervisory Board held five (5) regular sessions and discussed various issues, especially:

- 2008 year-end closing of T-HT Group,
- 2009 Audit Plan provided by external auditor,
- Implementation and effectiveness of internal control over financial reporting according to S-OX; S-OX 404 project in T-HT & Testing results,
- External Auditor's Report (quarterly reports, Auditor's Independence, Report on auditor engagement, new accounting and disclosure requirements in 2009, etc.),
- Significant risks and exposures (Legal framework related to DTK/Ducts, Consumer Protection Litigation Status, Frame Contracts Litigation Status),
- Fraud Report and Risk Reports for T-HT Group,
- Reports of the compliance officer,
- Status of Anti-Fraud Management and Compliance Risk Assessment results,
- Update of the Internal Audit Charter and Audit Manual,
- Measures monitoring and closing the remaining activities from 2008,
- Audit program 2008/2009 (execution, planning program),
- Supervision over the realization of audit measures and audit reports (e.g. compliance audits, IT security and customer data protection, complaint and order management, value steering and quality of revenue reporting, business continuity activities, etc.),
- Internal auditing program for 2010.

In 2009, the Compensation and Nomination Committee began the target-setting procedure for 2010 and also began preparing the target evaluation procedure for 2009. 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.

### **Merger of T-Mobile Croatia LLC to HT - Hrvatske telekomunikacije d.d.**

In the process of merger of T-Mobile Croatia LLC to HT - Hrvatske telekomunikacije d.d., the Supervisory Board acted as follows:

- The Supervisory Board supported the target blueprint for T-HT organization and transformation in relation to the merger of T-Mobile to HT d.d.;
- The Supervisory Board granted its prior approval to the Management Board of HT - Hrvatske telekomunikacije d.d. for signing of the Merger Agreement with the Management Board of T-Mobile Croatia LLC.;
- The Supervisory Board gave its consent for the special purpose interim financial statements of HT d.d. and special purpose interim consolidated financial statements of T-HT Group for the period ended 31 August 2009;
- The Supervisory Board examined the intended merger and the joint merger report of the Management Boards of HT and T-Mobile, as well as the Merger Agreement and accepted the economic and legal reasons for the merger, and determined that the transferee company implemented the procedure in accordance with the Law and Articles of Association of the Company.

The merger was entered into the court register of the Commercial Court in Zagreb on 31 December 2009. By entry of the merger into the court register, the transferee company, HT d.d. became the universal legal successor of the transferor company and thereby entered into all legal relationships of the transferor company, whereby T-Mobile ceased to exist with the expiry of 31 December 2009 as the day of the entry in the court register of the merger i.e. did not exist on 1 January 2010.

The Management Board, within the legal deadlines, submitted to the Supervisory Board of the Company the annual financial statements for the business year 2009 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 2009 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

The Company's auditor, 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 2009.

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 2009 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.  
Zagreb  
Croatia  
8 February 2010  
End of quote.

Slaven Đuroković

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 2009 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 2009.

The Supervisory Board, after considering the audited financial statements for the business year 2009, established that the Company acted in 2009 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 2009.

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 2009 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and states that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

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

Therefore, the Supervisory Board gives its approval to the proposal of the Management Board that the amount of HRK 3,548,217,633.26 which represents a sum of net income for 2009 in the amount HRK 896,079,447.08, retained earnings from earlier periods in the amount

of HRK 30,044,477.94 and retained and unallocated income in the total amount of HRK 2,622,093,708.24 formed according to the Merger Agreement signed on 29 October 2009 between T-Mobile Hrvatska d.o.o. and HT - Hrvatske telekomunikacije d.d., and entered into court register on 31 December 2009, shall be used accordingly:

- HRK 2,788,304,616.75 for payment to shareholders in the amount of HRK 34.05 per share;
- HRK 759,913,016.51 to retained earnings

### 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 2009.

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 2009, the Supervisory Board considered and approved the Company's business plan for the year 2010.

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 2009.

Guido Kerkhoff

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” Nos. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08 and 137/09), has 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 2009, 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 website of the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)).

The Company complies with all 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 250,000 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 Clearing Depository Association, 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 Clearing Depository Associations’ 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 should at their own discretion determine suitable proxies who will 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 fulfillment 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, the Management Board adopted the Audit Manual of the Corporate Internal Audit of the Company, which was amended in February 2008 and updated in December 2009.

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

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

### Significant Company Shareholders

The majority owner of the Company is Deutsche Telekom, with 51 per cent of shares. The Republic of Croatia owns 3.5 per cent of shares. The War Veterans' Fund owns 7.0 per cent of shares, while 38.5 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 Pupiće, 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 Articles Of Association

The President and Members 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. Throughout 2009 the Management Board had six members: the President of the Management Board and CEO; 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).

Member of the Management Board and Chief Operating Officer Mobile (COO Mobile) Rainer Rathgeber resigned from his position effective as of 30 September 2009.

The merger of T-Mobile Croatia LLC with HT - Hrvatske telekomunikacije d.d. was entered into the court register of the Commercial Court in Zagreb on 31 December 2009 and thereby T-Mobile Croatia LLC ceased to exist. The transferee company, HT d.d. became the universal legal successor of the transferor company and thereby entered into all legal relationships of the transferor company.

As part of the reorganization of the Company and creation of Residential and Business units, the Supervisory Board has agreed the division of responsibilities among Management Board members. As of 1 January 2010, the Management Board consists of the following members: the President of the Management Board and CEO; MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Chief Information Officer (CTO/CIO) and MB Member and Chief Human Resources Officer (CHRO).

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 elected by the General Assembly and one is appointed 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 large or uncommon transactions such as major 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.







## II. Business Review 2009

Croatian Telecommunication Market Overview

Regulatory Environment

Group's Strategy

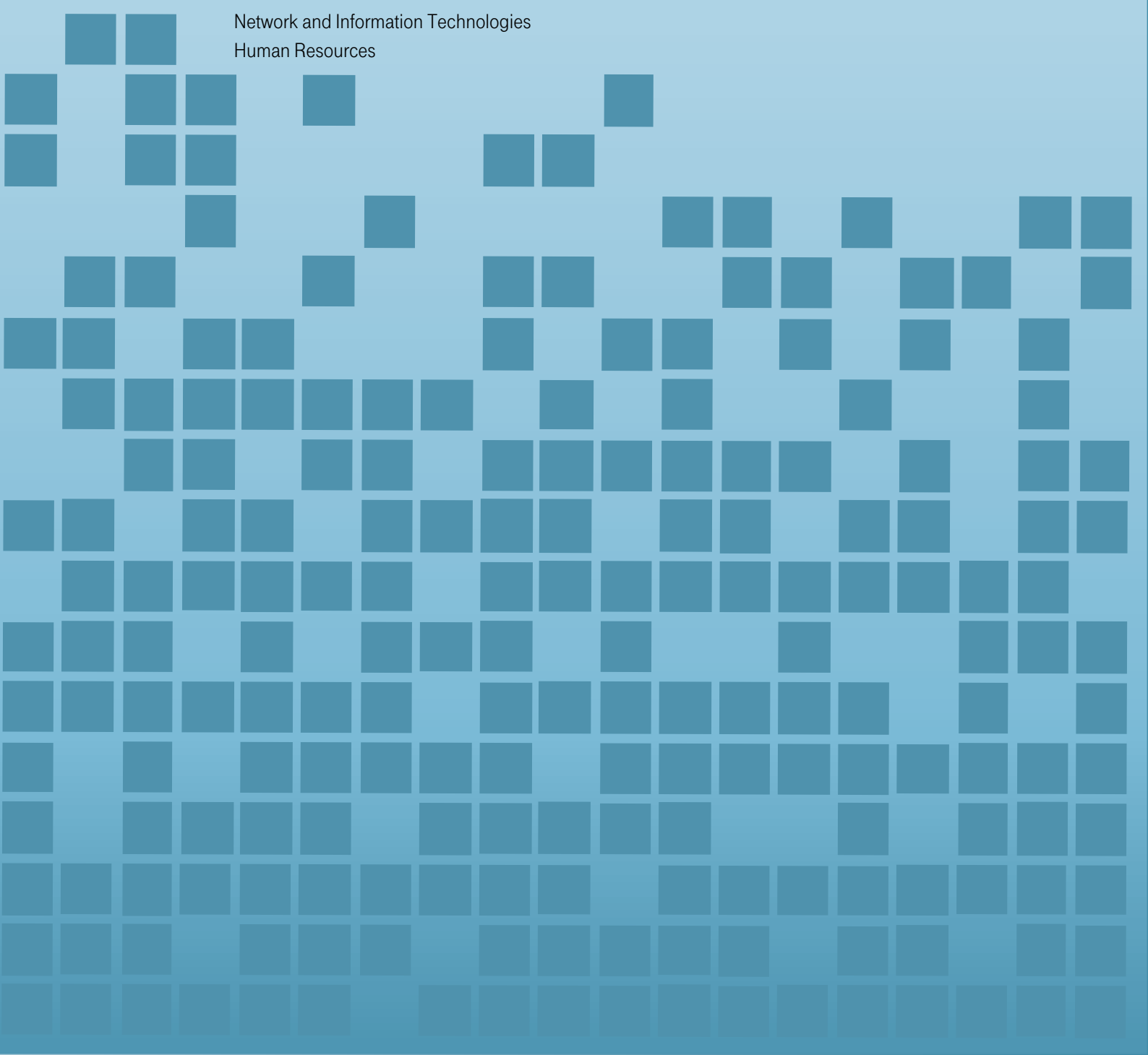
Organization of the Group

T-Com

T-Mobile

Network and Information Technologies

Human Resources



# Croatian Telecommunication Market Overview

## Strong performance despite a challenging economy

T-HT Group successfully maintained its leading position in the Croatian telecommunications market despite the intensified competition and the serious downturn in the Croatian economy.

For T-HT, the key events of 2009 included:

- In February 2009, T-HT Group released its financial results for the year ended 31 December 2008 confirming its leadership position in a fully-liberalised market worth around HRK 15 billion.
- Also in February, the Regulator decided on the new fixed and mobile interconnection charges that became effective from March, with decreases up to 20%.
- In April 2009 Iskon, T-HT's wholly owned subsidiary, introduced its own IPTV service together with a triple-play offer, highlighting T-HT's strategic focus on broadband and broadband-related services.
- In May 2009 T-HT Group exceeded the number of 500 thousand ADSL broadband customers.
- From 31 July 2009 the highly anticipated new iPhone 3GS became available in T-Centers.
- On 1 August 2009 the new personal income tax, as well as a 6% tax on mobile telephony revenues, entered into force as part of the Government measures to combat the recession.
- Based on the Croatian National Bureau of Statistics' official release from September 2009, the final consumption expenditure of households, as the largest component of GDP, decreased by 9.4% in Q2 2009 compared to the same quarter of 2008.
- On 29 October 2009, T-Mobile and HT signed a Merger Agreement based on which the two legal entities were combined at the beginning of 2010, with HT d.d. remaining the sole legal entity. Following this reorganisation, which became effective on 1 January 2010, the Group has been organized into Residential and Business units.
- In November 2009, T-HT entered the ICT (information and communications technologies) market for small and medium-sized enterprises launching its desktop management service thus expanding its ICT portfolio.
- MAXtv reaches its 200,000th customer in November 2009.

## Market trends

The most important telecommunications trends of 2008 remained significant in 2009: strong growth in broadband and IPTV, increasing demand for Internet content, continued decline in fixed telephony in line with world-wide trends, mobile penetration approaching saturation and increasing demand for mobile data services, driven by smartphones and mobile broadband.

## Macroeconomic environment

### Croatian economy hit badly by the global economic downturn

According to the Croatian Ministry of Finance, Croatian GDP is estimated to decrease by 5.0% in 2009 - one of the biggest falls in the past ten years. Unemployment rose throughout 2009 with registered unemployment at 16.6% in December 2009, compared to 13.7% in December 2008. Inflation remained stable with an average annual inflation rate of 2.4%.

## Fixed-line market

### T-HT maintained leadership against expected market decline

Fixed telephony remains competitive in Croatia, with nine operators active in 2009, the same as in 2008.

Group is dedicated to high-quality services and offers tailored to suit the needs of specific customer segments. In support of these efforts, T-HT strengthened its sales channels with the integration of the T-Com and T-Mobile sales organizations in 2009.

According to the Croatian Central Bureau of Statistics, the number of fixed-line minutes decreased by 6.8% in 2009. There was no significant change in fixed-line penetration, which reaches 42% of the population, according to the National Regulatory Agency.

## Mobile telecommunications

**T-Mobile maintained leadership in a maturing market, with increasing demand for mobile internet**

T-Mobile remained the leader in a saturated market, with mobile penetration of an estimated 137,4% served by three operators since 2005. Total Croatian mobile market minutes increased by 6% in 2009.

Increasing demand for mobile Internet was a significant feature of 2009, with all three operators promoting mobile broadband offerings that encouraged customers to increase data usage.

## Internet

**T-HT dominates the growing broadband market; MAXtv one of Europe's most successful IPTV launches**

T-HT Group is by far the largest provider of broadband services in Croatia, continuing to expand the roll out of its high-speed MAXdsl offering and augmenting it with premium services such as MAXtv - the Group's IPTV service. At the end of 2009 the Group had 554.995 of ADSL subscribers, up from 472.654 in 2008.

Despite the strong increase in subscriber numbers, Croatia's broadband market remains a significant growth opportunity for T-HT, with just 35% of Croatian households connected via broadband compared to an average of 55% in Western Europe.

By the end of 2009, there was 235.980 IPTV customers representing 43% of T-HT's total ADSL customer base. Since its launch in September 2006, MAXtv has become one of Europe's most successful IPTV services. It now has 125 channels offering Croatian and international TV and films, with premium services including video-on-demand, web and SMS recording, and reading mails from inbox.

## Data

**Market continuing migration to IP-based services; quality of service secures T-HT's leading position**

T-HT maintained its leadership of a market that is migrating from traditional unmanaged data services to more cost effective, IP-based services.

Although the data market is relatively small, representing less than 2% of total Croatian telecom revenues, it represents an important service for business customers.

The Group's main data service competitors continued to develop their own networks targeting the corporate and government sectors.

## Wholesale

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

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

Both, ULL (unbundled local loop) and bitstream offers are available in the Croatian market enabling competitors to offer their own broadband products to consumers, even if they do not operate the local loop.

In terms of total market revenues, the overall Croatian wholesale market remained stable in 2009. As the market liberalisation continued, number of ULL customers increased from 87.072 in 2008 to 123.054 in 2009.

# Regulatory Environment

The new Law on Electronic Communications, which replaced the previous Law on Telecommunications, has been in force since July 1st, 2008. The new Croatian regulatory regime transposed the 2002 EU 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 electronic communications including duct and infrastructure issues, right-of-way fees, conditions of service provisioning, universal services, and the prevention of fraud and abuse.

In 2009 several new Ordinances entered into force. From the Group's perspective some of the most important are: Ordinance on the method and conditions for providing electronic communications networks and services; Ordinance on universal services in electronic communications; Ordinance on the method and conditions for access to and joint use of the electronic communications infrastructure and related equipment; Ordinance on the certificate and the fee for the right of way; Ordinance on numbering, addresses and radiofrequencies fees; Ordinance on the Agency's fees; Ordinance on allocation of numbers and addresses; Ordinance on number portability; Ordinance on reference offers.

In February 2009 the Company, T-Mobile and Iskon submitted prior notifications to the Agency, in line with the prescribed transition towards the general authorization regime. T-Mobile concession agreements, concluded on the basis of regulations that were previously in force in the telecommunications sector as well as other licenses and notifications for providing telecommunications services granted to the

Company, T-Mobile and Iskon, ceased to apply as of the date of issuance of the Agency's certificate on receipt of prior notifications.

Since 2002 the Company has held SMP (significant market power) status in the market for fixed public voice service, the market for leased lines, the market for interconnection and the market for voice, sound, data, documents, images and other transmission in fixed telecommunications network. In 2007 the Company's subsidiary Iskon was designated as holding joint significant market power with the Company in the market for fixed public voice service and the market for voice, sound, data, documents, images and other transmission in fixed telecommunications network. Since 2004 T-Mobile has been designated as an SMP operator in the interconnection market and in the market for public voice services in mobile telecommunications 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. Such SMP designation was based on the old regulatory framework that was in force until July 2008.

As a consequence of the new Law on Electronic Communications, a new regulatory framework was introduced in which regulatory remedies may be imposed only after relevant markets are defined and analyzed and it is determined that competition on the relevant market is insufficiently effective (i.e. the existence of operators with SMP).

In line with this new regulatory framework, and taking into account the latest EU recommendations, the Agency undertook a new round of market analyses in the period between the middle of 2008 up to the middle of 2009.

Market analysis procedures were finalized in July 2009 by the Agency's decisions on SMP status and the imposition or removal of regulatory obligations for the following markets:

1. call origination on the public communications network provided at a fixed location
2. call termination on individual public communications network provided at a fixed location
3. wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location
4. wholesale broadband access
5. voice call termination on individual public mobile network
6. publicly available telephony service in mobile electronic communications networks
7. access and call origination on public mobile communications networks
8. transit services in the fixed public communications network
9. SMS termination on individual public mobile network

By its decisions of July 2009, the Agency designated the Company as the SMP operator in markets under 1, 2, 3 and 4 above, Iskon was designated as the SMP operator in the market under 2, while T-Mobile was designated as the SMP operator in the market under 5 above. With regard to markets under 6 - 9, the Agency concluded that they no longer fall under scope of ex-ante regulation, and thus withdrew all existing obligations imposed upon the Company and T-Mobile in these markets.

In markets where Company/T-Mobile/Iskon were designated as SMP operators, remedies that were in place before the market analysis ceased to

apply, and following remedies were imposed by the Agency's decisions from July 2009:

- I. Network access and use of special network facilities
- II. Non-discrimination
- III. Transparency
- IV. Price control and cost accounting
- V. Accounting separation (applies only to the Company; cost accounting project, which was initiated in the end of 2008, is ongoing)

In addition, by its decisions of July 2009, the Agency decreased the following Company and T-Mobile wholesale prices:

- shared ULL price was reduced to 21,46 HRK, with effect from October 1st, 2009,
- single tandem call origination fee in fixed network was reduced to 6,8 lp/min (50% off-peak), with effect from January 1st, 2010
- single tandem call termination fee in fixed network was reduced to 6,7 lp/min (50% off-peak), with effect from January 1st, 2010
- call set-up fee in fixed network of 1,5 lp/min was abolished, with effect from January 1st, 2010
- mobile termination fee was reduced to 0,56 kuna/min, with effect from January 1st, 2010

The existing SMP status of the Company in the market for leased lines, and the joint SMP status of the Company and Iskon in markets for public voice service and voice, sound, data, documents, images and other transmission in fixed telecommunications network, as determined by the Agency in 2007, remains. According to existing obligations in these markets, prices for retail public voice service in the fixed network and leased lines 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.

On August 31st, 2009 the Agency passed a decision on the issuance of new technology-neutral radiofrequency licenses to T-Mobile, for the frequencies already used by T-Mobile in the 900 MHz and 1800 MHz bands, for the period until October 2024. This new radiofrequency license replaced the technologically defined GSM radiofrequency license, which expired on September 16th, 2009.

In June 2009, the Croatian Parliament adopted the new Croatian Competition Act, which will enter force on October 1st, 2010.

The new Law on Fee for Providing Services in Mobile Electronic Communications Networks entered into force on August 1, 2009. Based on this law, the Group is obliged to pay a monthly fee to the state's budget in the amount of 6% of revenues realized from provision of voice services and SMS and MMS services.

## T-HT Group Mission:

### Communication, Information & Entertainment, Always & Everywhere

Communication is a basic human need and information and communication technologies offer countless possibilities for socializing, communicating and staying in touch.

Our lives are increasingly networked, with more and more people communicating in highly individual ways through virtual forums and international platforms. Enormous volumes of photos and film clips are uploaded to the Internet and viewed every day, while virtual communities such as Facebook and Twitter attract millions of new members every month. More and more, these applications are tailored to people's needs and can be used at any time through a wide variety of input devices.

Checking e-mail and using the Internet are part of our everyday life. The Internet has revolutionised the way we spend our free time and the way we do business. We take for granted that we can access the Internet at home, in the office and on our mobile phones and we are constantly demanding faster access and better quality of service.

## T-HT Group Vision:

### T-HT - Leader in Connected Life & Work

The possibilities are endless. Technology works for us, making life easier, solving problems faster, leaving us with more spare time and making our lives a lot more fun. We can do business on our way to the airport, watch our favorite TV show on the screen of a mobile phone and stay in touch with our families, friends and colleagues, using mobile and Internet-based services to share our experience, ideas, and thoughts.

## Key strategic directions

Telecom providers are witnessing a shift in value from traditional commodity services such as voice calls to newer services such as content and ICT. This is why our strategic focus remains on building broadband and value-added services on top of our core telco offerings.

The Group's strategy is based on four strategic areas:

- I Top line growth
- II Loyalty
- III Quality & efficiency
- IV Service & culture

### I Top line growth

#### Continued strong broadband and MAXtv growth

As the market leader, opportunities for growth are limited in the traditional markets of fixed and mobile telephony. The Group is therefore looking to broadband and broadband-related products such as IPTV and other content for growth.

Encouraged by the success of MAXtv and tportal, the Group's goal is to strengthen its position in the media and entertainment segment through continuous development of innovative products and services.

#### Information and Communications Technologies

Information and Communications Technologies (ICT) represent a natural extension of the Group's existing telecommunications businesses. In the second quarter of 2009, the Group introduced new business solutions for large enterprises. We followed this in November 2009 with the launch of a desktop management service aimed at small and medium-sized businesses. The Group is committed to expanding its ICT offerings in the coming years.



## II Loyalty

### Protecting and strengthening the core business

The Group is committed to protecting and strengthening its subscriber base with tailor-made packages and tariffs for business and residential customers, competitive pricing, premium quality services, attractive bundles and innovative offerings such as MAXtv.

## III Quality & efficiency

### Investing in our network

Continuous improvement of customer satisfaction and the maintenance of high quality services require significant investment in our network - the key enabler of all T-HT services. We are investing in new, all-IP core and optical-access networks to enable all future bandwidth-heavy services, such as MAXtv, rich content and mobile internet.

### Cost management and maintaining best-in-class profit margin

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.

## IV Service & culture

### Building a superior service culture

The Group aims to be valued by its customers as an organisation that constantly achieves a high standard of excellence in customer service. 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.

## Top-class employees

In a market facing dynamic technological changes and constant market challenges, the development of a skilled and service-oriented workforce that understands customer needs and new technologies is vital for building customer relationships and encouraging customer retention. Recognising that knowledge rapidly becomes obsolete and that service-focused employees are its key asset, the Group invests in the education and training of staff in order to maintain a high standard of service. In this way, we are able to attract and retain first-rate people to help us build our business.

### Improvement of customer-related processes, aligning organization to strategy

The Group is constantly improving and simplifying key aspects of customer service and customer relationship management. Central to this commitment, we have reorganised the HT d.d. business to focus on the distinct needs of residential and business customers. The reorganisation became effective on 1 January 2010, replacing the former Group structure based upon the fixed and mobile divisions, T-Com and T-Mobile.

## Corporate Structure

### Merger of T-Mobile Croatia LLC with HT -Hrvatske telekomunikacije d.d.

Croatia's telecommunications market is constantly changing. Against a backdrop of economic uncertainty, competition is increasing from new and existing operators, new technologies bring both opportunities and challenges and customer expectations become more demanding at the same time as their spending power comes under pressure.

The result is a continuing decline in the use of fixed telephony, the mobile market is becoming saturated, more investment is required to support new technologies and customers are more likely to churn.

It is challenges like these that have driven the transformation of the Group and consequently the merger of T-Mobile Croatia LLC with HT d.d. and the related transition. On 1 January 2010, the old divisions of T-Com and T-Mobile, serving fixed and mobile markets respectively, were replaced by a new structure based upon Residential and Business units. The process of reorganisation began in July 2009 with the realignment of sales teams and was completed with the merger of T-Mobile into HT d.d. at the end of the year.

At the same time, we have reorganized our technical and operational functions to provide maximum support for the new T-HT. With these transformation changes, the premises for further continuation in pursuing our goal of becoming even more efficient and customer focused are created.

Transformation of the business enables us to improve the way we do business, providing Business and Residential customers with dedicated sales organizations capable of offering the full range of products and services we offer.

The result will be improved customer care and an increased ability to provide tailor-made and comprehensive solutions, especially for business customers.

Furthermore, the reorganization of internal business operations enables significant synergies and cost savings through the consolidation of marketing, contract negotiation with suppliers and many other activities important to the business.

On 29 October 2009 a Merger Agreement was signed by HT d.d. and T-Mobile and upon the decision of the Assembly of the transferor company by which the merger was approved, and the merger was entered into the court register of the Commercial Court in Zagreb on 31 December 2009.

By the merger, the transferee company, HT d.d. became the universal legal successor of the transferor company and thereby entered into all legal relationships of the transferor company, whereby T-Mobile ceased to exist with the expiry of 31 December 2009 as the day of the entry in the court register of the merger i.e. did not exist on 1 January 2010. In the merger procedure, the assets, rights and obligations, as well as the capital of the transferor company, were entirely transferred to HT d.d. As the universal legal successor of the transferor company HT d.d. will be liable for all obligations of its predecessor, T-Mobile Croatia LLC (including, but without limitation to obligations towards suppliers, tax obligations, obligations towards employees and other creditors).

The Management Board is of the opinion that the merger was carried out on the basis of and in accordance with the Law, and that it serves the benefit of the Company and its shareholders.

## Organisational Structure

### Group

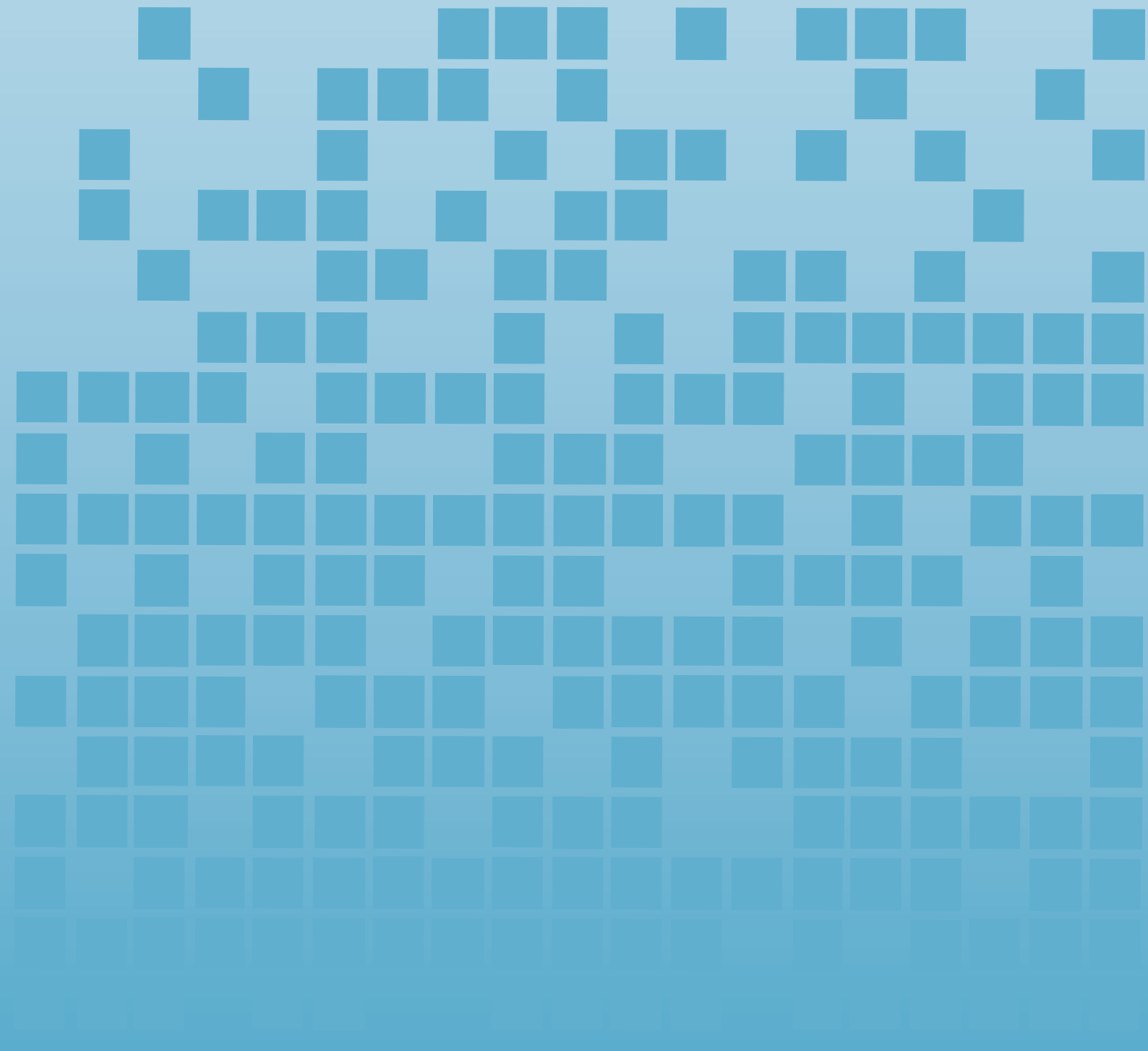
The Group's new organization is based on customer facing unit business (hereinafter: Business), customer facing unit residential (hereinafter: Residential), technical functions (CTO/CIO), support and steering functions (CEO, CFO and CHRO) and a number of smaller subsidiaries.

### Business

Business is headed by Chief Operating Officer Business (COO Business) and in particular includes Marketing, Sales and Customer Service for business customers, ICT Business Solutions and Wholesale.

### Residential

Residential is headed by Chief Operating Officer Residential (COO Residential) and in particular includes Marketing, Sales and Customer Service for residential customers.






# T-Com

Overview

Major Achievements in 2009



## Overview

Throughout 2009, T-Com continued to hold its market-leading position in all fixed telephony market segments, despite ever-increasing competition.

- The total number of mainlines was almost 1.5 million
- Revenue from Internet services increased by 27.7% to HRK 1,149 million, accounting for 22.8% of T-Com's revenue
- The number of ADSL lines increased by 17.4% to almost 555,000
- The number of IPTV customers increased by 74.1% to almost 236,000
- Thanks to its extensive network coverage, T-Com remained the top player on the wholesale market
- T-Com continued with the offering of Net Phone Packages

T-Com's total revenue decreased by 2.8% to HRK 5,044 million in 2009. (2008: HRK 5,191 million). The drop in revenue is mainly due to the decrease of the fixed telephony customer base, mainly caused by the fixed-to-mobile substitution. The decrease was partially offset by the increase in revenue from Internet services, particularly ADSL and IPTV.

## Major Achievements in 2009

### Fixed telephony

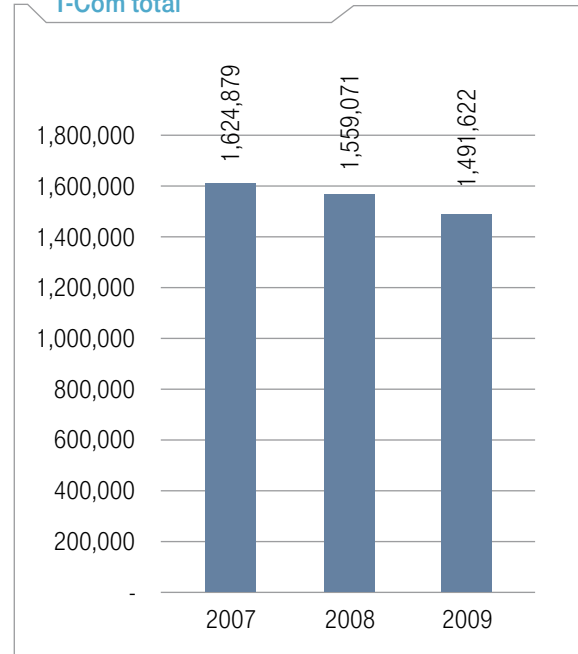
The total number of mainlines decreased by 4.3% to 1.49 million, compared to 1.56 million at the end of 2008. Revenue from fixed telephony dropped by 10.3% to HRK 2,506 million, which accounts for 49.7% of T-Com's revenue compared to last year's 53.8%.

Total traffic decreased by 8.8% to HRK 3.46 billion minutes (2008: HRK 3.80 billion), most of which was generated by calls to numbers within Croatia.

The average monthly revenue from voice services per access (ARPA) also decreased by 7.9% to HRK 138, compared to HRK 150 in 2008. The decrease is attributable to the fixed-to-mobile substitution and to increase in VoIP usage.

As at 31 December 2009, 93.2% of mainlines were POTS and FGSM, 6.2% were ISDN, and the remaining were payphones.

T-Com total



In order to boost growth in traffic, T-Com introduced new flat tariffs Non Stop and Slobodno Vrijeme Plus. Both tariffs offer 60 minutes of free calls (Slobodno Vrijeme Plus only in off-peak time), with only the set up fee charged.

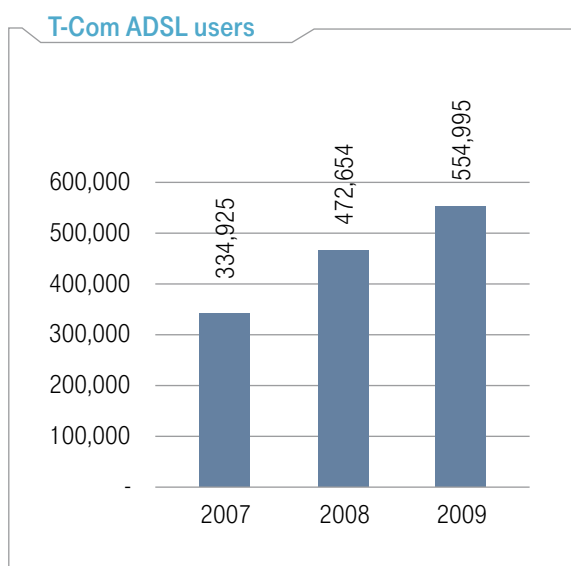
T-Com continued with the migration of Halo tariff customers to the Super packages (Super 60, Super 150 and Business Super 500 promos) in order to encourage customers to use future flat-fee models, to improve customer satisfaction and thus to increase revenues.

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

### Internet services

Internet services continued to show strong growth and amounted to HRK 1,149 million (2008: HRK 899 million), accounting for 22.8% of T-Com's revenue and 13.4% of the Group's revenue (2008: 17.3% and 10.2%).

The popularity of broadband Internet combined with strong promotional incentives to switch from low-bitrate dial-up access to broadband resulted in a strong growth of ADSL by 17.4% to 554,995 mainlines. This increase was achieved through a combination of increased ADSL speeds, attractive pricing and constant efforts to enrich multimedia content available to subscribers.



The ADSL ARPU (the average monthly revenue from ADSL per user) increased by 3.8% as a result of strong promotional activities aimed at increasing the use of broadband services. Regardless of the increasingly attractive promotions of other operators, T-Com managed to keep its market leader position by focusing on customer needs, offering attractive prices and providing Internet services through its high-quality network.

An improvement in IP telephony has been noted, as a result of promotional campaigns targeting Net Phone customers connected via ADSL-a (packages for small and medium enterprises) and introduction of installation for HRK 1 as permanent offer.

The main event in 2009 for Iskon was the launch of the IPTV service in April, which turned out to be the biggest growth engine in the residential segment up to the end of the year. With IPTV on board, Iskon was able to launch the first fully integrated (voice, data and TV) triple play service in Croatia which, which proved to be popular with residential customers.

### IPTV

At the end of 2009, MAXtv and Iskon.TV, the Group's IPTV services, had almost 236,000 subscribers, which is a 74.1% increase compared to 2008. This success may be attributed to the combination of premium content, constant product improvement and attractive promo offers. The premium content packages offer exclusive channels & programs including HBO, HBO Comedy and HBO on demand, as well as an increasing number of Video on Demand titles from major studios including MGM, Paramount and NBC.

Attractive MAXtv marketing campaigns were supported by strong advertising and numerous promo campaigns offering the Try and Buy concept, a HRK 1 subscription fee for a certain amount of months, or a gadget coming along with MCD. All marketing initiatives were launched both for the standard and for the stand-alone MAXtv package.

A new T-Com IPTV service for hotels was launched, including a new graphic user interface and content with separately negotiated rights for hotels.

### tportal

In 2009, tportal maintained its position as one of the largest Croatian news portal, with 700,000 unique visitors per month according to Gemius, an independent Internet traffic research agency. tportal's most important projects in 2009 included thematic microsites, such as a separate website for presidential elections which covered the events related to the election extensively, through news, photo and video coverage.

Services like shopping, playtoy, fonoteka, maxzona, daily and webmail are just small fraction of what tportal has to offer, including more than 40 regular

content sections. Content is available through PDAs, mobile devices, SMS information alerts and T-Mobile WAP portal, and on social networks like Facebook and Twitter. In addition, T-Mobile iPhone customers enjoy a customized interface when browsing tportal.

### Data services

T-Com continued to focus on the migration of customers from traditional data services towards more advanced and faster IP-based services such as Metro Ethernet and IP VPN (virtual network via Internet Protocol).

The number of lines provided by T-Com decreased by 3.7% compared to 2008. Due to its network coverage and quality of service, T-Com is the market leader in this segment as well.

### Wholesale

Even with stronger domestic competition and increased activities of foreign operators, 2009 was a successful year for T-Com on the wholesale market.

Revenues from wholesale account for 20.8% of T-Com's total revenue, amounting to HRK 1,049 million. This is a decrease of 9.2% compared to 2008. Revenue from dial-up traffic dropped due to the migration of customers to broadband services, while revenues from interconnection services via leased lines decreases as a result of migration to new commercial models (interconnection on T-Com side).

#### Domestic wholesale market

The year 2009 saw a slight growth of the interconnection market, due to the variety of services and the volume of their usage, although not at the same pace as in the previous year.

The main activities of the Wholesale business in 2009 were related to the activation of new ULLs and expansion of local interconnections via their own infrastructure. In addition to co-location for ULL purposes (261 MDF locations), operators are present

at 63 local exchanges, and 44% of IC relations were realized via their own infrastructure. At the end of 2009, the number of delivered ULLs increased to 123,054 while the growth in the ULL customer base also contributed to slight increase in national terminating minutes.

As in the previous year, the Value Added Services (VAS) market stagnated in 2009 as a result of changes in the legal environment pertaining to services which, up to 2008, have been the main revenue driver on the VAS market.

The Data / Capacity market remained stable throughout 2009 despite strong competition and lower margins. Mobile operators remained the biggest capacity consumers due to the growth of mobile broadband services and increasing fixed-to-mobile substitution.

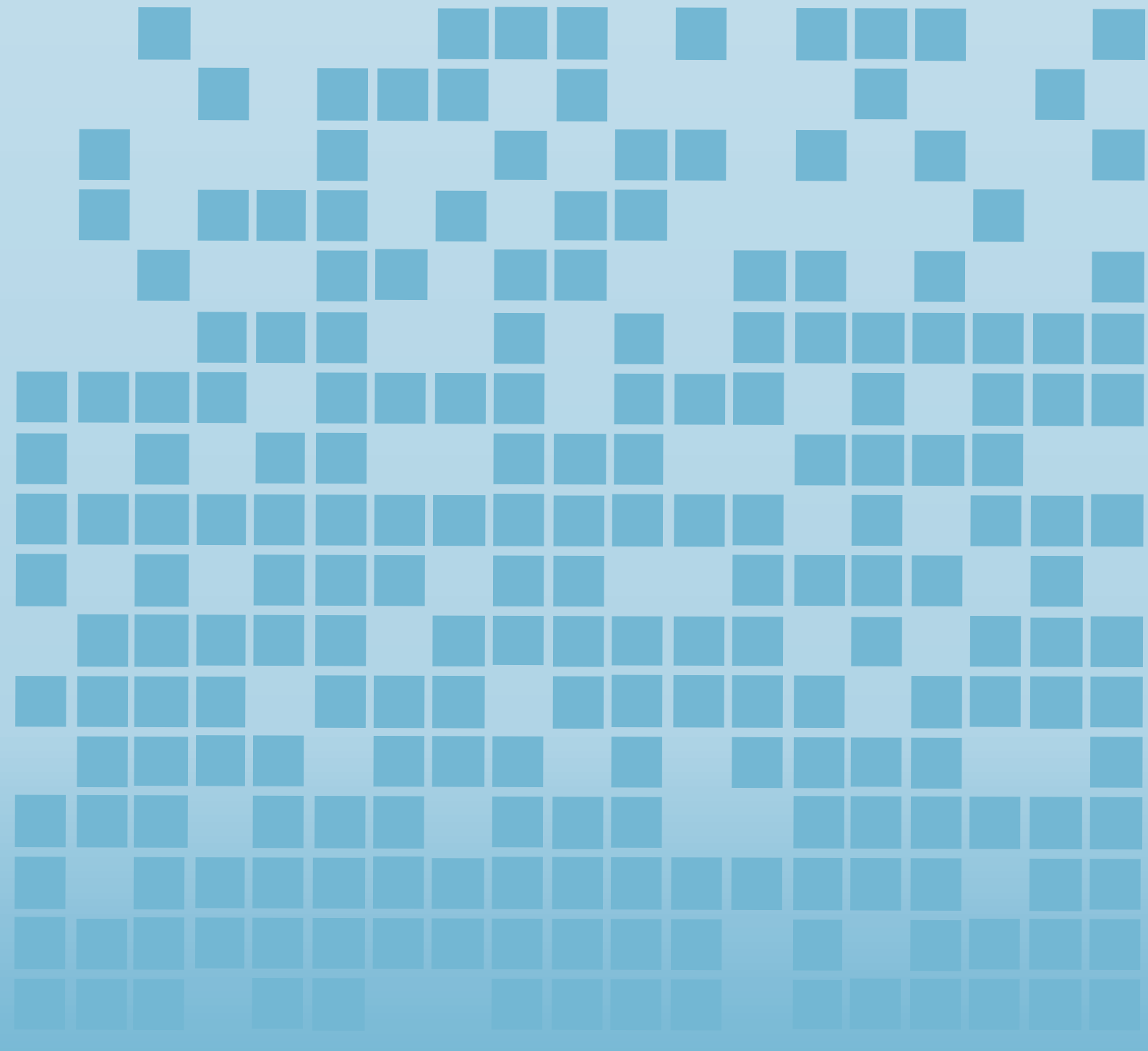
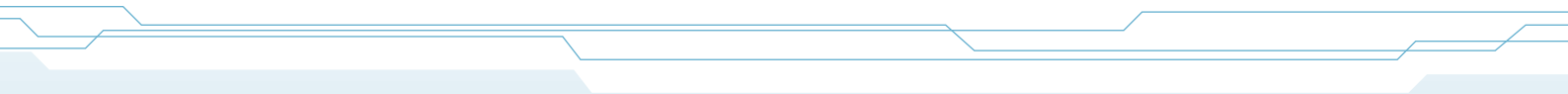
#### International wholesale market

T-Com's flexible interconnection policy resulted in an increase in the number of international voice and data interconnections from 47 in 2008 to 60 in 2009. Despite the fixed to mobile substitution and recession influences, the volume of international traffic terminated to Croatian fixed network via T-Com wholesale increased by 14% compared to the previous year, as a result of increased sales activities and strengthening of T-Com's competitive position in the regional market.

T-Com's position on the international market improved also due to the introduction of new border crossings and capacity upgrades of existing border crossings' points of presence.





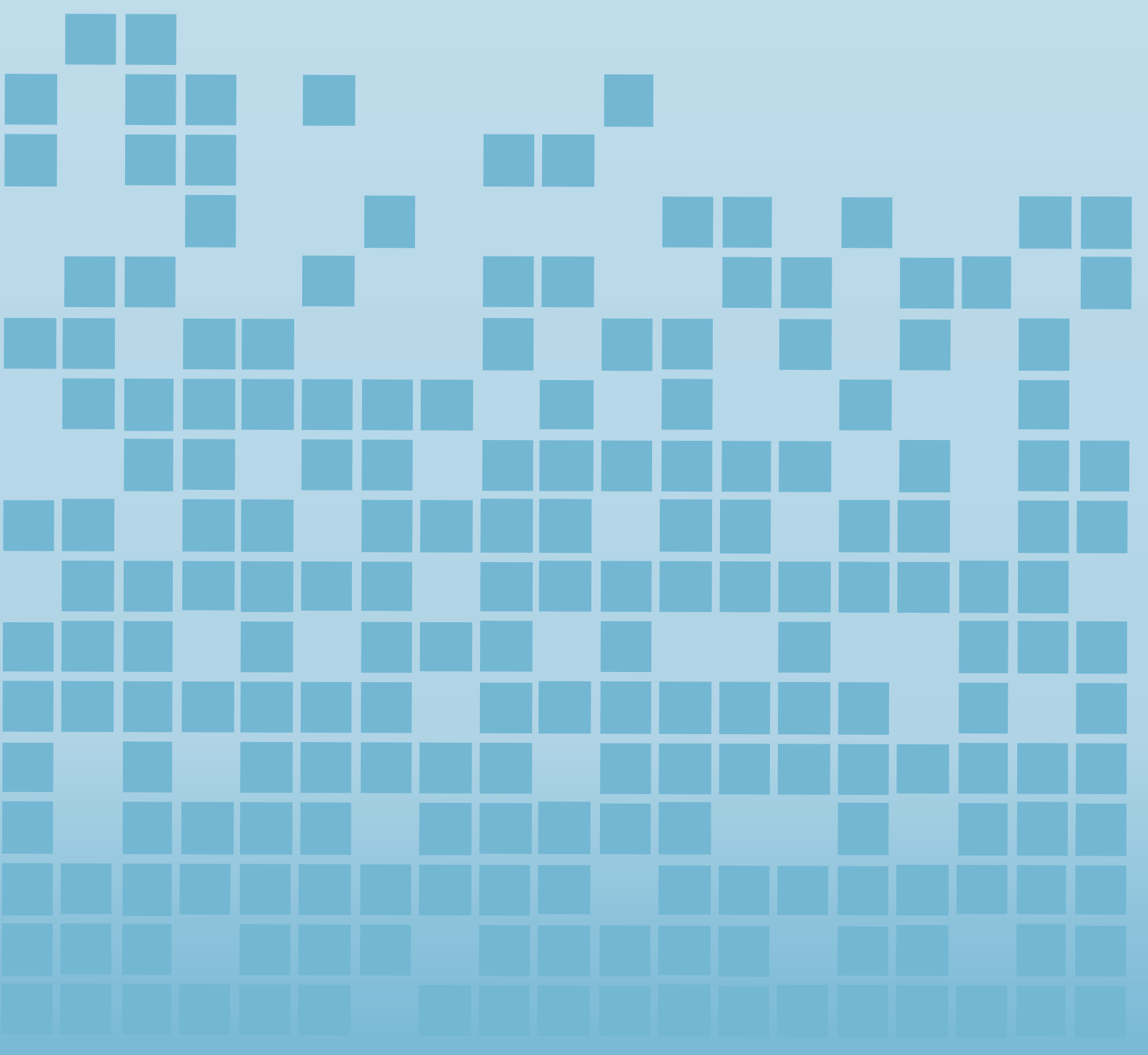




# T-Mobile

Overview

Major Achievements in 2009



## Overview

The year 2009 was marked by the following market accomplishments:

- T-Mobile confirmed market leadership on the competitive Croatian mobile communications market with a 46.7% SIM market share,
- The number of almost 2.86 million customers was reached,
- An array of new products/services was offered (e.g. netbooks, Stick2CARNet) and options were created to meet specific needs in the residential customer segment,
- A unique postpaid tariff was offered on the market, fitting the needs of young people,
- Unique weekly options for prepaid customers and a Simpa Internet daily option were offered for the first time on the market,
- The business segment needs were met Ured za van, the first product on the market providing a full business solution, integrating voice, data and hardware.

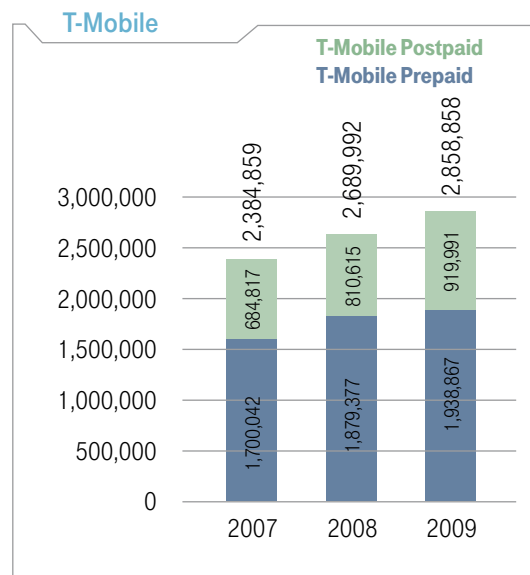
## Major achievements in 2009

Mobile penetration in the Republic of Croatia increased from 132.4% at the end of 2008 to 137.7<sup>1</sup> % at the end of 2009.

T-Mobile maintained its market-leading position with a 46.7% share of SIMs (2008: 45.8%). At the end of 2009, T-Mobile had 919,991 postpaid customers (2008: 810,615) and 1,938,867 prepaid customers (2008: 1,879,377). By a series of successful marketing campaigns aimed at encouraging prepaid customers to switch to postpaid accounts, T-Mobile's share of postpaid in the total customer base rose from 30.1% to 32.2% during 2009.

## Products and services

During 2009, T-Mobile offered an array of new products created to fulfill specific needs of different customer segments. For the first time on the market, T-Mobile launched weekly options for prepaid customers and achieved great success. Additionally, the Simpa Zabava tariff was launched in March. During the last quarter of 2009, T-Mobile offered to its prepaid customers Extra minutes and data traffic that could be obtained after topping-up of Simpa account.



1) Source: published VIPnet's and Tele2's quarterly report for 4Q 2008. Number of subscribers for VIPnet and Tele2 for 4Q 2009 are internally estimated.

T-Mobile also launched the first postpaid tariff on the market, named Mrak, fitting to the needs of young people. Also, T-Mobile celebrated the second birthday of the very successful Flex Obitelj tariffs designed specifically for families. In order to allow flexibility to postpaid users they could choose one of the offered paid options for free when signing their contract. Additionally, the Tarifa po mom tariff was launched in order to satisfy the needs of customers that want to enjoy postpaid benefits without worrying about monthly fee. For customers to whom music is important, T-Mobile launched the Play Now Plus option.

T-Mobile has also offered a package designed for CARNet users - Stick2CARNet. Residential customers' needs in data segment were addressed with the Mobile Internet promo offer, Simpa Internet offer and daily Simpa Internet paid option, as well as with the launch of the Asus and Lenovo netbook offers. Exclusively on the market, T-Mobile offered to its customers a new, upgraded version of the iPhone device - iPhone 3GS.

Business segment needs were met by extension of our successful Flex Team and Ured za van offers. Ured za van, the first product on the market that provides a full business solution: integrating voice, data and hardware, continued its successful development. Additionally, T-Mobile has offered solutions targeting specific market segments in order to satisfy customer requirements in those segments. For example, an offer targeting crafts designed in cooperation with the Chamber of Crafts, a new tariff designed for start-up companies (Flex Business Start tariff) and the Flex Team seasonal offer.

### T-Com and T-Mobile integrated sales

In 2009, activities continued to improve sales efficiency, to increase the service level at points of sale and to upgrade provision of customer service.

All sales channels are used to offer the customers of fixed and mobile network products and services.

The organization of sales operations utilizes three central organizational units: sales to key and large enterprises, to small and medium enterprises and to resident customers.

Major achievement are:

- Reinforcement of the own retail network through opening of new T-Centers and refurbishment/relocation of some of the existing ones.
- Reinforcement of the indirect partners network by deeper market coverage and harmonization of the T product portfolio.
- Introduction of the new sales channels to be even closer to the customer (stands in selected shopping malls).
- Introduction of payment machines for customers' bills payment in T-Centers.
- Development of business operation in the business customer segment, harmonization with various sales channels and consulting approach.

## Network and Service Platforms

The area of Network and Service Platforms with the underlying infrastructure is literally the backbone of T-HT. According to T-HT strategy, the goal is to achieve a maximum of customer satisfaction with cost efficient, flexible and reliable infrastructure.

T-HT has chosen strategy to provide all services via one common broadband (BB) network port.

That means access and voice network transformation must be done.

Access network transformation is carried out through new optical access network, optical access platform (GPON) and selective modernization of copper access network.

Therefore, in these segments, investment cycle has been started. Besides that, existing PSTN network should be functionally upgraded to enable VoIP telephony provision on BB port.

The Croatian regulatory body imposed obligation to T-HT to announce to other operators 5 years in advance its detailed plan for termination of its copper access network as well with to other by-laws, related to fiber access network, insisting on bitstream on fiber optic, as prerequisite for further commercial customer's acquisition on optical fiber access infrastructure and optical in house installations.

During 2009, the focus in the area of fiber optical, broadband, transport and IP/MPLS platforms were:

- Continuous broadband roll-out deployment on fiber-optic infrastructure. EoY results: 40 GPON nodes installed, FTTA (fiber to the area) - 215,228 customers reached, FTTH (fiber to the home) - 34,740 customers reached and 2,114 commercial customers connected with broadband services provisioned;
- Regulatory Agency (HAKOM) issued additional obligations to T-HT in the area of bitstream services (BSA). BSA services are extended with QoS based voice and IPTV requests and BSA must be offered on the new optical fiber access network, as prerequisite for further optical fiber commercial customer's acquisition;

- Further roll-out of proven DSLAM (Digital Subscriber Line Access Multiplexer) infrastructure covering 98% of Croatian population by the end of 2009 with a total of 802,000 ports. In 2009, additional 175,000 ADSL ports have been deployed;
- Continues upgrade of core transport platform (16 IP/MPLS routers and 45 Ethernet switches installed) in order to cope with increasing capacity demand. Extension of fiber optic backbone network in Region 4 - west ring and Region 3 - east ring and deployment of new regional transport (DWDM) ring in Region 3 and Region 2 (international connectivity to BiH) enabled migration to 10 Gbit/s Ethernet. 40 CWDM installed to improve QoS ADSL platform by removing DSLAM cascades or to connect new DSLAMs. UMTS SWOP Project has been supported by transport capacities extensions. 50 new radio-relay links and 280 MSPP equipment are mainly installed for T-Mobile network;
- T-HT's IPTV platform (Internet Protocol Television) is upgraded to new software - Home Entertainment 3.0 server and client software - in order to provide more interactive features and better customer experience to T-HT's customers. Regarding capacity, it is extended up to 300.000 customers. Also, all MAXtv channels are protected with an error correction tool called VQE that eliminates automatically minor degradation of video quality do to the insufficient quality of the access network;
- Small-scale platform for Hotel IPTV solution is fully functional. Hotel platform reuses residential MAXtv platform channel lineup, digital rights management, network and video on demand resources, only by adding middleware servers. Hotel user interface is finished, too;
- Voice service (HALO) redefinition is done in order to support future residential voice (VoIP) platform. Residential VoIP platform (preIMS) is tested, and ready for migration pilot;
- Termination of X.25 platform and migration of its business customers to future-proof Metro-Ethernet and IP/MPLS products. After the Telex-platform, this is the first data platform that is migrated according to T-HT platform strategy that focuses on simplification and reduction. In addition, CROLINE (legacy frame relay data network) customers have been migrated to Metro Ethernet and ATM network platforms;

- Completed the consolidation of SLAs (Service Level Agreements) with major relevant service providers in area of telecommunication equipment maintenance, resulting with aggregation of existing SLAs and achieved cost savings of 8.4% in relation to year 2008;
- Phase I for 6 projects of Six Sigma program completed. Total financial impact for 2009 is 39 mio HRK. Service culture development program implemented. Technical field personnel are equipped with corporate uniforms and service culture education program for 600 technicians performed. Deployed operational prerequisites for customer services migration to FTTH infrastructure. Implemented ACS system for zero-touch provisioning and remote CPE management.

### Information technologies

Information Technology is one of the key business enablers in the telecommunications industry and a powerful tool to improve customer service. T-HT's Information and Business Systems Unit is responsible for information technology initiatives that support the Group's drive to increase revenues and improve internal efficiency, at the same time as enhancing product development and reducing time to market for new products.

Significant effort is directed towards improving our service delivery processes, developing advanced customer, market and business intelligence capabilities, and to the integration of services that work across the T-HT Group to improve internal efficiency.

Notable project achievements in 2009 include:

- Complete Architectural Solution and Support (COMPASS) for NGN services; Business Process Management; Accounts separation (AS); CCS (Commission Calculating System); Geneva system upgrade, etc;
- TRGO application: Replacement of the legacy cashier solutions in T-Com and T-Mobile to provide an integrated and unique approach to customer services;
- Enterprise Service Bus (TIBCO) implemented;
- Finalization of Data Warehouse enable advanced analytical support for Sales and Marketing, Finance, OSS and Wholesale areas;
- Upgraded Ascade Carrier Cockpit release 4.5 to Carrier Cockpit R6.1. to optimize maintenance costs and mitigate business risks;
- NICB (National Inter-carrier Billing): Implementation of a standard solution (Intec's Interconnect) for the national inter-carrier billing system, to improve and automate related processes;
- The Group is constantly focused on high quality of customer-tailored services and offers. In order for T-HT to be recognized as a company with the highest level of data security, the Group began implementing an information security management system (ISMS) in order to achieve certification under the ISO/IEC 27001 standard. We have achieved ISO 27001 certificate in both fixed and mobile business in the area of Mediation systems.



## Making the most of our talent to enhance business strategy

T-HT's business performance depends on the knowledge and skills of its employees. It is therefore vital that we take all possible steps to enhance professional development of our colleagues and to nurture 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 HT incentive and performance management systems are in place that align compensation with individual performance and competence.

Organizational changes and the introduction of advanced technologies necessary to keep the Group competitiveness meant that the headcount optimization program continued in 2009. At the end of the year, the Group had 6,116 employees, compared with 6,487 in 2008.

In order to enable efficient transformation, in 2009 the organisational structure of HR Department was changed towards customer centric organization - HR as the partner to business, which puts the internal customer in the focus.

In order to foster a corporate culture based on trust, service orientation and a strong team spirit, T-HT implemented a new set of corporate guiding principles for all employees. They define customer satisfaction as key driver of our efforts, the importance of integrity and respect in the workplace and the ambition to make T-HT an attractive place for colleagues to perform and develop their own capabilities.

Employee rights and benefits are governed by the ongoing Collective Agreement and the Group maintains constant dialogue and a spirit of cooperation with its social partners.

## High standards of employee development

The Group continued its program of systematic learning, knowledge and skills development throughout 2009 in order to enhance the capabilities of its staff and though this improvement, achieve higher standards of service.

Educational programs were mainly focused on building the leadership skills of middle management, improving customer relationship skills, project management and professional competence. Overall, more than 3,500 employees participated in at least one of our educational programs in 2009.

In 2009, initiatives for expert career development were intensified through the program for expert development (RasT) which was launched in the technical area.

Furthermore, T-HT placed strong emphasis on the recruitment and training of young professionals to support the implementation of new technologies and applications and to assure the future competitiveness of company in the developing and challenging telco market.

## The customer is central to what we do

The development of a service-focused and customer-oriented organization remains the highest priority for the Group. Several projects, notably the Service Role Model Award, were undertaken in support of this goal in order to promote outstanding service within T-HT and to identify and reward employees who provide excellent service to customers.

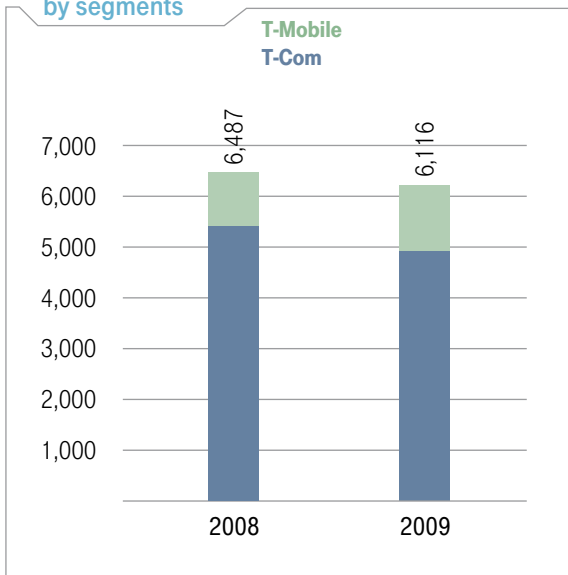
### Work-life balance

T-HT strongly supports the health and well-being of its employees. The Group offers regular health checks as well as sport and recreation activities as a contribution to a balance between the professional and personal lives of employees.

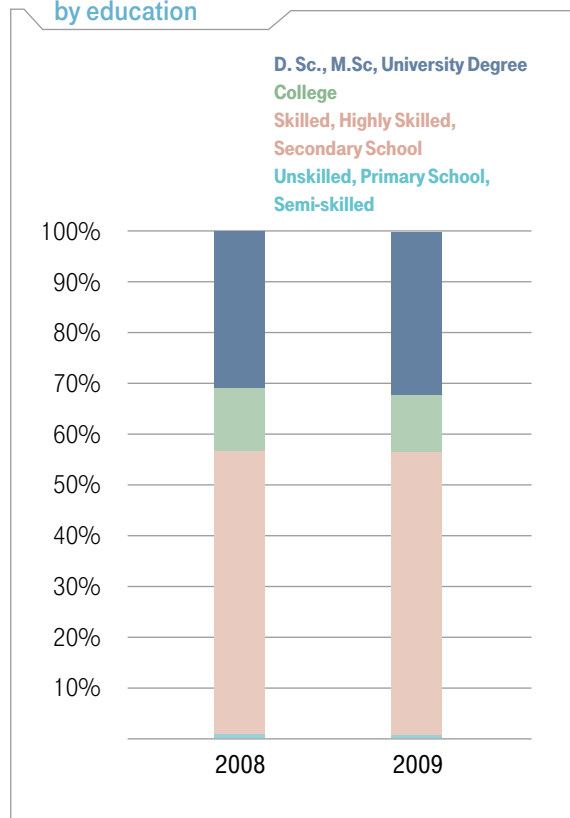
### Feedback matters

In order to achieve constant improvement, T-HT regularly conducts employee surveys to understand factors such as the level of employee satisfaction with the organization, the perception of career prospects and the effectiveness of staff management. Furthermore, to foster a culture of open feedback, a structured initiative for developing and enabling feedback skills was introduced.

Number of employees by segments



Employees by education



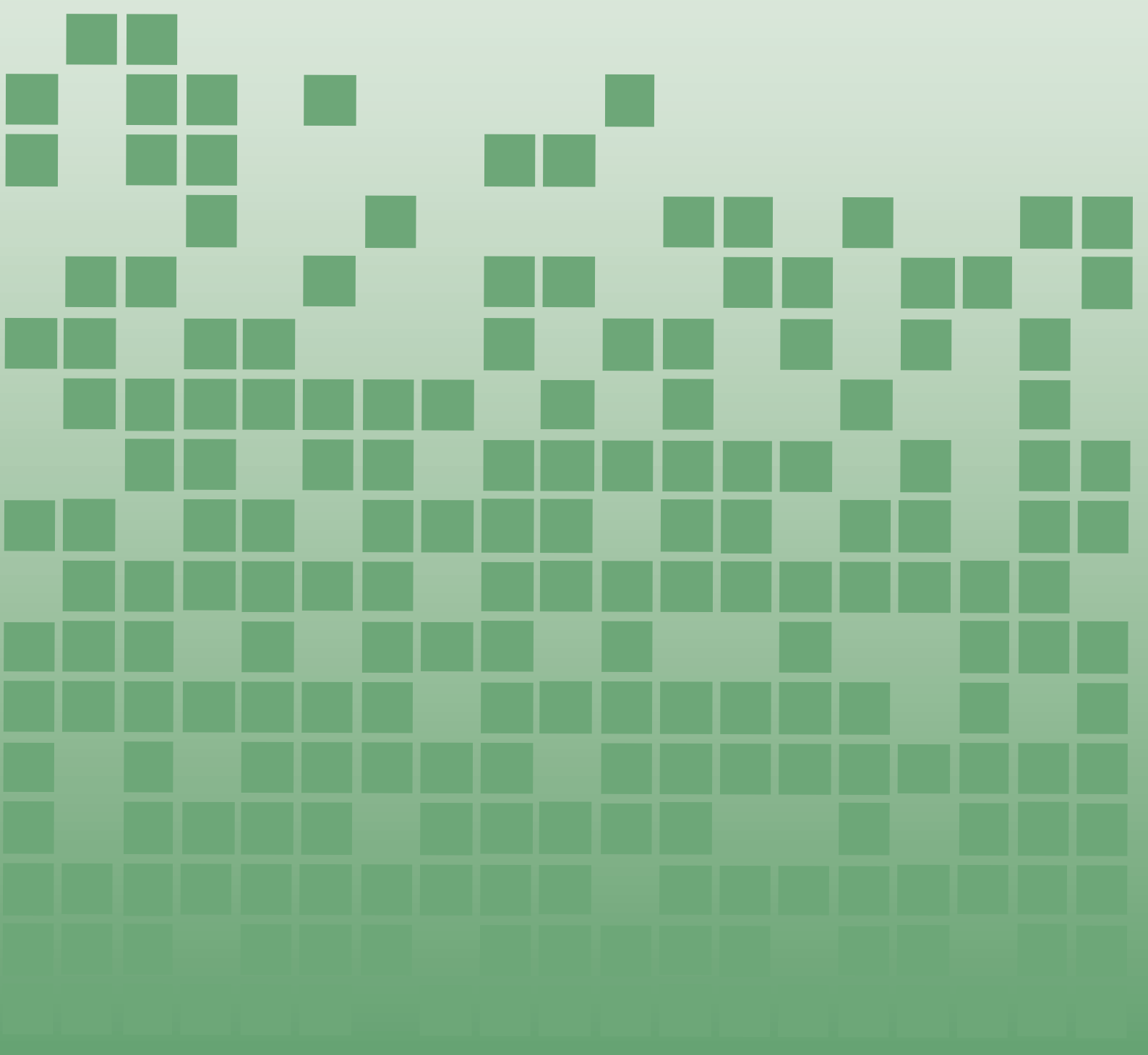




# III. Corporate Social Responsibility

Donations and sponsorships

Ecology



## III. Corporate Social Responsibility

As a strong and successful company, T-HT Group is fully aware of its responsibilities in Croatian society and aspires to set a high standard of corporate social responsibility (CSR). As a result, CSR is an integral part of T-HT Group operations and it works to improve the wider Croatian society through a number of important activities.

Being a communications company, it is natural that social projects in which the Group is involved have an orientation towards humanitarian issues, education and projects in which modern technologies can make a significant impact.

Most of our projects are long-term schemes, which ensures their better efficiency and many of them are both internal and external in nature, which means that T-HT's employees directly engage in providing support to the community.

Important aspects of our work in corporate social responsibility include: cooperation with educational, cultural and scientific institutions as well as with non-governmental organizations: the provision of T-HT resources for socially useful purposes; sponsorship of worthy projects and the implementation of a strong environmental protection strategy.

### Donations and sponsorships

#### The Group

In 2009, the five-year partnership between T-HT and UNICEF in Croatia was strengthened with the project "The First Three Matter Even More", by expanding the previous year's project of encouraging responsible parenting to a group of parents whose children have developmental disabilities. In order to encourage and increase regular financial support for the project, T-HT created and sent out donation slips with bills for services that made it possible for users of its services to contribute directly to this worthy UNICEF project. This partnership has also raised awareness about another crucial issue - the foster care of children.

Since 2001, T-HT has supported a large number of humanitarian initiatives with the provision of free 060 numbers to help them achieve their aims. In the last year, the 060 number was used in a number of socially important campaigns. The aims of these projects included: support for patients suffering from a rare and severe skin disease (Association Debra); providing patients of pediatric hospital in Osijek with better hospital treatment (Foundation Milo moje); encouraging the donation of blood stem cells (Ana Rukavina Foundation); and providing support for fostered or abandoned children to receive a university education (Step into Life - Rotary Club Zagreb Kaptol). In all these initiatives T-HT waives its income. Thus the full amount raised by calling the donation number went to humanitarian purposes.

The project "Together We Are Stronger" was continued for the fourth successive year. It is unique because T-HT's employees have the key role in the project, identifying needs and proposing projects based upon their own experiences and the environment around them. Out of 178 applications received from all over Croatia, 25 projects were selected in 2009 and awarded funds totaling more than HRK 1,1 million. Support was provided to projects including: Brave Phone - a Hotline for Abused and Neglected Children; the Association of Parents of Children with Special Needs ("Mi" from Požega); the Association of Disabled Persons ("Bubamara" from Vinkovci). In addition, for the Health Center Zagreb East, T-HT purchased equipment for vehicles as well as lifts for wheelchair-bound and mobility-impaired people. T-HT also provided support for creative and therapeutic work with children at Studio Tanay in Zagreb.

For the second successive year, T-HT chose to donate significant funds to good causes instead of purchasing holiday gifts for business partners and customers. In 2009, holiday donations of the T-HT Group went to emergency medical treatment centers. Our support was based on the premise that efficient communication is often essential when it comes to protection and rescue of human lives. The Ambulance Service was selected as a recipient because of its general importance for society as a whole and

for individuals as well, regardless of age, gender, residence or social status. Following the advice of the healthcare profession, equipment worth more than one million kunas was donated to University Hospital „Sestre milosrdnice“ in Zagreb, the Emergency Medical Treatment Institution in Rijeka and to health centers in Vukovar, Šibenik, Dubrovnik and Slavonski Brod. Within continuing support to the emergency services, which was initiated by T-Mobile in 2006, so far, nearly ten million kunas have been donated for medical devices, equipment, vehicles and other needed supplies to emergency medical treatment institutions and health centers all over Croatia.

In October 2009, T-HT organized its annual conference for the second time, entitled “Growing through Knowledge”, featuring world-renowned speakers whose books and ideas have inspired audiences throughout the world. The Nobel Prize winner Muhammed Yunus and behavioral economist Dan Ariely delivered inspiring lectures and addressed the issue of the wealth of human potential, the need to combat poverty and the irrationalities of everyday life. This conference, which was covered extensively in the media, was attended by leading business people and politicians, as well as representatives from T-HT’s business partners and many of the best students from faculties and other educational institutions across Croatia.

Apart from larger initiatives or long-standing partnerships, T-HT also supported a number of smaller projects that benefited different segments of Croatian society. It continued its support for the work of the Volunteer Center of Zagreb, both financially and through the direct participation of its employees.

Last year, the Group expanded the already existing project of T-Mobile and announced a competition for “T-HT Scholarship”. Among excellent candidates from the Faculty of Electrical Engineering and Computing in Zagreb, the Faculty of Electrical and Mechanical Engineering and Naval Architecture in Split and the Faculty of Electrical Engineering in Osijek, 11 seniors were selected who not only fulfill their faculty obligations and have excellent results in their

studies, but are also interested in a number of other things and are actively engaged in sports or cultural activities, associations, i.e. show maturity, versatility and motivation for achievements and broad personal success.

For the second year running, T-HT partnered with Microsoft to support the “Imagine Cup 2009”, which gathered student teams from all over the world to envisage technological solutions for global issues such as famine and poverty, providing primary education, the promotion of gender equality, maternal health etc.

T-HT again supported the biggest technological conference in Croatia, WinDays 2009, as well as the MIPRO conference, the “Vidi Web Top 100” competition and other events related to the telecommunications sector and its communities. In addition, T-HT provided funding or infrastructure and equipment for a number of national and international forums and conferences on a variety of subjects.

In December 2009 HT was granted membership in the CEERIUS Sustainability Index in the season 2010. The CEERIUS (CEE Responsible Investment Universe) is the sustainability index of the Vienna Stock Exchange for the CEE region, composed of the shares of the leading companies in reference to social and ecological quality, as well as economic performance.

The third „T-HTnagrada@msu.hr“ competition also marked the third year of cooperation between T-HT and the Museum of Contemporary Art. T-HT’s collection - works of art featured in this established and well received competition - will be exhibited in the Museum, which was opened in a new representative building in December 2009. Apart from financial support, T-HT continues to provide support to the new museum with its telecommunications services.

In 2009 T-HT continued its longstanding tradition of sponsoring Croatian National Theaters in Osijek, Split, Rijeka and Varaždin, as well as the City Drama Theater Gavella in Zagreb.

Given the huge influence on society of sport, the Group continued, as main sponsor, its longstanding cooperation with the Croatian Olympic Committee in, thus aligning the values of T-HT with the noblest traditions of the Olympic Games, namely fair competition and the encouragement of young people to work hard in order to achieve their goals and become valuable community members.

### T-Com

In 2009, T-Com supported the development of sporting culture through the project "I Love Football", ensuring a more favourable environment for the development of football as the most popular team sport in Croatia. Within the project, T-Com sponsors the Croatian national football team, in addition to its extensive multi-year sponsorship of the Association of the First Croatian Football League.

For the fifth successive year, T-Com continued its association with the "KulTurst" project, in order to popularize and assist cultural events in Croatia, notably major film and theater events. The list of events sponsored last year includes: Pula Film Festival, Split Summer, Vukovar Film Festival, Ulysses Theater, ZagrebDox and Libertas Film Festival.

For the second year running, T-Com's Internet portal tportal.hr awarded the most lucrative literary prize in Croatia, worth HRK 100,000. More than 50 entries were received for the "roman@tportal.hr" literary competition, with Drago Glamuzina being awarded the main prize for his novel "Three", judged the best Croatian novel in 2008.

T-Com continued the project "Net in School", launched in 2001, providing children's homes with free access to MAXdsl high-speed Internet, personal computers for Internet access and free viewing of TV programs via MAXtv. The donation extended to 17 children's homes and their regional branches throughout the country. MAXtv and MAXdsl have now been donated to children's homes at 29 locations over the past two years.

### T-Mobile

As a company committed to care for the environment and conscientious waste management, T-Mobile was the first operator in Croatia to launch the collection and ecologically safe disposal of old mobile phones and batteries. Customer response to this initiative has been excellent, evidenced by the fact that more than 80,000 old mobile phones have been collected since 2004.

In 2007, T-Mobile became a patron to the Zagreb elementary school "Nad lipom" and supported the school in its candidacy to become an international eco-school. International eco-schools present special programs to educate children and make them aware of the importance of environment protection. This status, awarded by Eco-Schools International Coordination, is renewed each year and T-Mobile was delighted to continue its support in 2009. In addition, T-Mobile helped with projects to relating to waste disposal and landscaping the area surrounding the school.

One of the biggest highlights of 2009 was T-Mobile's INmusic festival, considered to be the most successful to date. It will be remembered for excellent performances of Kraftwerk, Lily Allen, Moby, Franz Ferdinand, Tricky, Anthrax and many other performers.

The third successive Minival festival of new bands was held under the sponsorship of T-Mobile. The winning band was given the opportunity to perform at T-Mobile INmusic festival.

The year was also marked by renewed cooperation with one of the biggest Croatian musicians, Zlatan Stipišić - Gibonni.

In 2009, T-Mobile actively supported sailing. In addition to its sponsorship of prestigious regattas, T-Mobile is also personal sponsor of the yachtsman Ivan Kljaković Gašpić, who won the gold medal at the European Championship in the Finn class in Bulgaria and became the European champion.



## Ecology

For several years, environmental protection has been an important consideration in major business processes. During 2009, a project to introduce a joint ISO 14001 environmental management certificate was launched by the Deutsche Telekom Group in order to increase transparency, align policies and develop a single approach to customers, citizens and assessment agencies, across DT and related companies including T-HT.

T-HT is a signatory to the United Nations Global Compact, which advocates the principles of ethic business, including environment protection. In 2009, the first Communication on Progress was published. In addition, T-HT has been a long-time member of the European Telecommunications Network Operators' Association (ETNO) a signatory to the Charter on Environmental Protection, and also a signatory to the Sustainable Development Charter, by which T-HT has committed itself to environment protection management according to international guidelines and best practices.

In its environmental efforts, the Company strives to meet the expectations of its customers. It uses innovative solutions such as WebBill, e-bill, e-vouchers etc. to reduce the impact of its services on the environment. In addition, facilities have been provided in all T-Centers for the collection and safe disposal of old mobile phones and batteries.

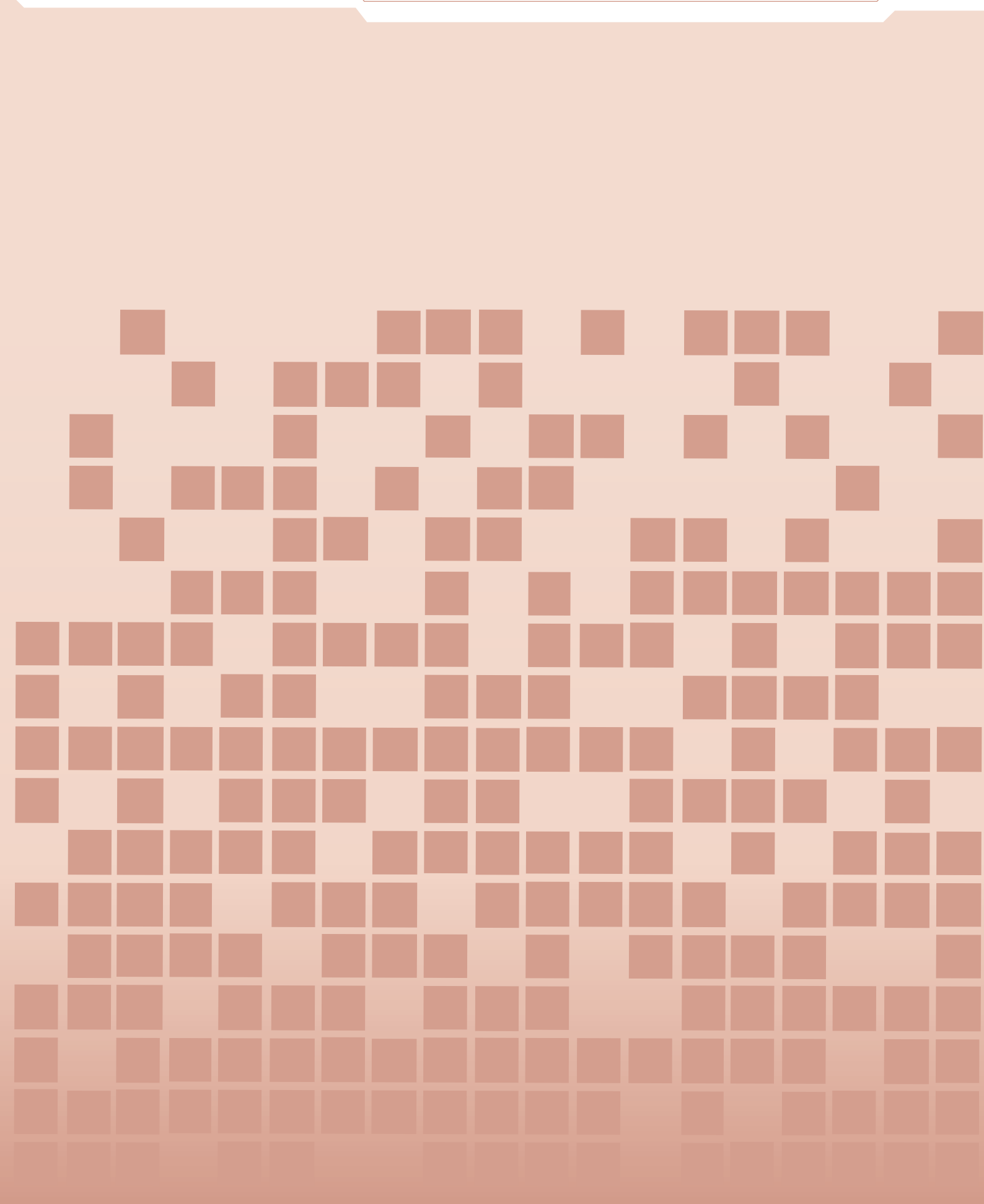
Special attention is paid to resource conservation, climate protection and reducing the amount of harmful emissions produced by Group activities.

T-HT's fleet is constantly renewed by the purchase of new vehicles with better CO<sub>2</sub>/km emission factors. In addition, gas-driven vehicles are being used more extensively, as gas is considered the most environmentally friendly fuel.

Older-generation air conditioning systems are being replaced by new and more efficient ones that do not use substances harmful to the environment. A large number of boiler rooms use ecologically friendly natural gas for

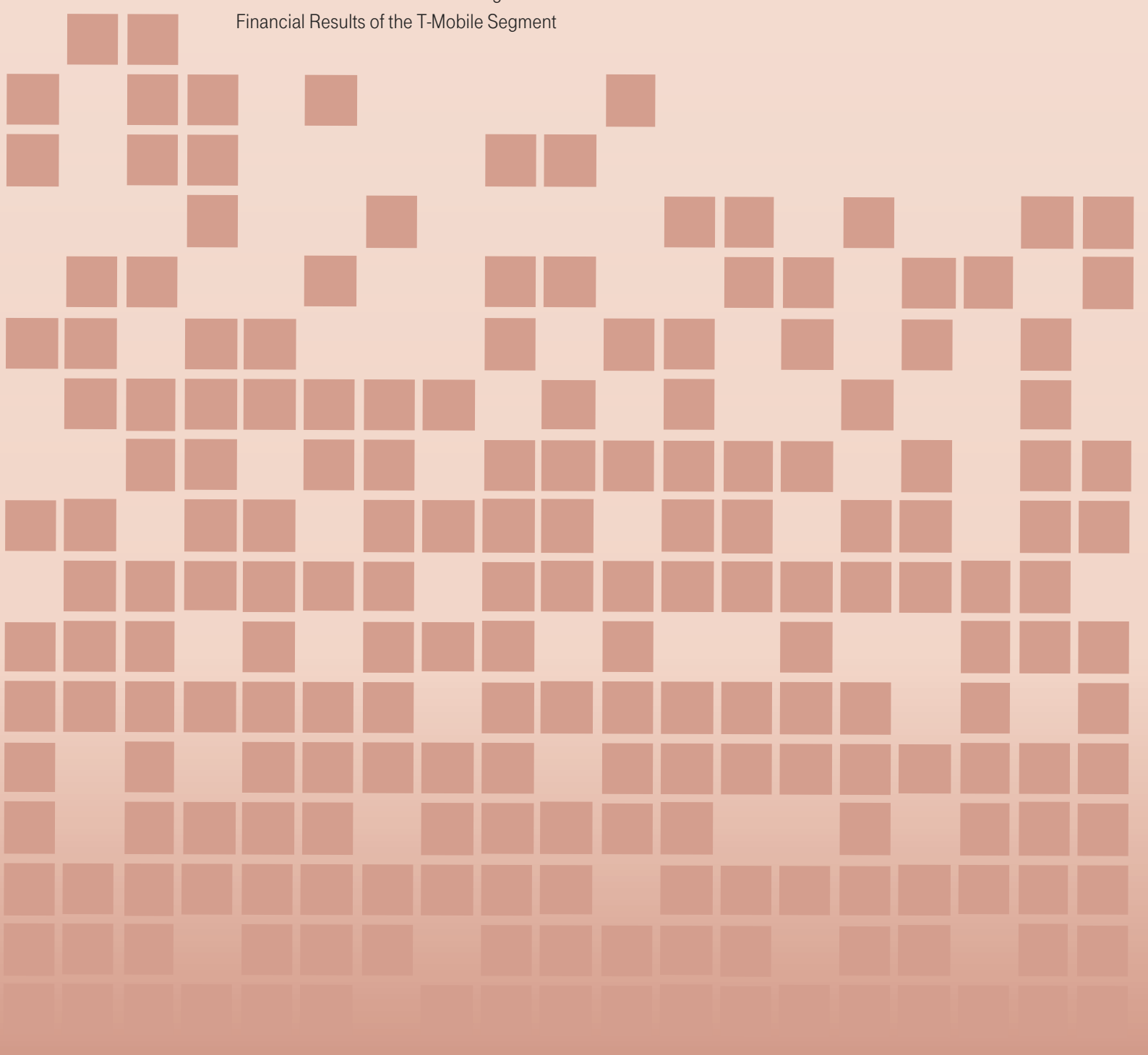
central heating, while bio diesel-driven mobile power supply units are used for emergency power supplies. Use of bio diesel is preferred in protected areas such as national parks. T-Mobile uses solar and wind energy for electric power supply of plants on remote mobile network locations and encourages shared use of infrastructure (e.g. antenna poles) with other operators in order to reduce their impact on the environment. The aim of waste management in T-HT is in the first place to avoid or at least reduce generation of waste.

T-HT's involvement in environmental protection and ecology was expanded in 2009, after collaboration with the Green Communication project in 2008 to reforest twenty hectares of land in each of four regions in Croatia. Our commitment continued with the project "Preservation of Habitats of Endangered Species", in which underwood was removed from nesting areas of bird corncrake in the Odra Plain, pastures along the river Sava were improved, Trstenik moor was cleaned up and endemic species of the Adriatic confluence were monitored.



# Financial Review 2009

- Consolidated Revenue
- Consolidating Operating Expenses
- T-HT Group Profitability
- Financial Position
- CAPEX
- Financial Results of the T-Com Segment
- Financial Results of the T-Mobile Segment



## T-HT Group Financial Results

### Consolidated Revenue

Total consolidated revenue decreased by 3.1% to HRK 8,517 million in 2009 from 8,791 million in 2008 driven primarily by lower revenues from fixed and mobile telephony, while internet services revenue has grown by 27.7%.

### Impact of IFRIC13

Accounting standard IFRIC 13 was introduced at the beginning of 2009 and comparable figures for 2008 have been prepared accordingly. IFRIC 13 addresses how companies that grant their customers loyalty award credits when buying goods or services should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. IFRIC 13 requires companies to estimate the value of the points granted to the customer and defer this amount of revenue as a liability until they have fulfilled their obligations to supply awards.

The effect of IFRIC 13 on the revenue is following:

- T-HT Group: Jan-Dec 2008 - HRK -25.3 million; Jan-Dec 2009 - HRK -22.1 million
- T-Mobile: Jan-Dec 2008 - HRK -18.8 million; Jan-Dec 2009 - HRK + 6.6 million;
- T-Com: Jan-Dec 2008 - HRK -6.5 million; Jan-Dec 2009 - HRK -28.7 million

The impact of IFRIC 13 for the period 2009 financial year is to decrease EBITDA by HRK 19.3 million; no EBITDA impact in year 2008.

### Consolidated Operating Expenses

Total consolidated operating expenses before depreciation and amortization decreased by 1.1% to HRK 5,204 million, (2008: HRK 5,264 million). This decrease is visible in merchandise, material and energy expenses, services expenses and other expenses which were partially offset by a higher write down of current assets and employee benefits expenses.

#### Material expenses

The material expenses decreased by 5.7% to HRK 2,320 million (2008: HRK 2,459 million). This was due to decrease in merchandise, material and energy expenses and decrease in services expenses. Merchandise cost decrease of 4.4% to HRK 1,054

million (2008: HRK 1,102 million) is a result of reduced sales of mobile merchandise through both direct and indirect channels. Services expenses decreased by 6.7% to HRK 1,266 million (2008: HRK 1,357 million) due to lower domestic interconnection services and international telecommunications services which are related to net revenue decrease in fixed, mobile and wholesale services.

#### Employee benefits expenses

Total employee benefits expenses, before exceptional items related to redundancy costs, decreased by 0.8% to HRK 1,150 million from HRK 1,158 million in 2008.

In 2009 provisions of HRK 152 million were made for redundancy versus HRK 45 million in 2008. Consequently, employee benefits expenses after exceptional items increased by 8.2% to HRK 1,302 million (2008: HRK 1,203 million). As at 31 December 2009, the Group had 6,116 employees compared to 6,487 employees at 31 December 2008.

#### Other expenses

Other expenses decreased by 2.4% to HRK 1,472 million (2008: HRK 1,508 million) mainly due to decrease in advertising expenses, rental and leasing expenses and temporary work and personnel leasing expenses.

#### Write-down of assets

The write-down of current assets increased by 16.6% to HRK 110 million (2008: HRK 94 million) as a result of lower collection of receivables due to recession.

#### Depreciation and amortization

Depreciation and amortization increased by 2.9% from HRK million 1,362 in 2008 to HRK 1,402 million in 2009. This is mainly a result of higher amortization costs of intangible assets in mobile business, which is related to replacement of packet core network software.

## T-HT Group Profitability

### EBITDA

EBITDA (before exceptional items) decreased by 3.8% to HRK 3,859 million (2008: HRK 4,009 million) as a result of net revenue and other operating income decrease.

### Exceptional items

There were HRK 163 million of exceptional items, out of which HRK 152 million is related to provisions for redundancy costs and HRK 11 million related to reorganizational cost.

In 2008, there was HRK 45 million of exceptional items all related to redundancy costs.

### Operating profit (EBIT)

Consolidated operating profit decreased by 11.9% to HRK 2,294 million (2008: HRK 2,602 million). This was mainly due to decrease in revenue and increase in redundancy and depreciation costs.

### Net profit

Consolidated net profit decreased by 12.4% to HRK 2,023 million in 2009, from HRK 2,310 million in 2008. This decrease, compared with operating profit decrease, is additionally affected with lower financial income.

## Financial Position

### Balance Sheet

The total value of assets decreased by 4.8% to HRK 14,472 million (2008: HRK 15,205 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 7,977 million at 31 December 2008 to HRK 8,175 million at 31 December 2009 due to increased investment in broadband access and the core infrastructure.

The decrease in total current assets from HRK 7,227 million at 31 December 2008 to HRK 6,297 million at 31 December 2009, is mostly related to the dividend payment and investment activities.

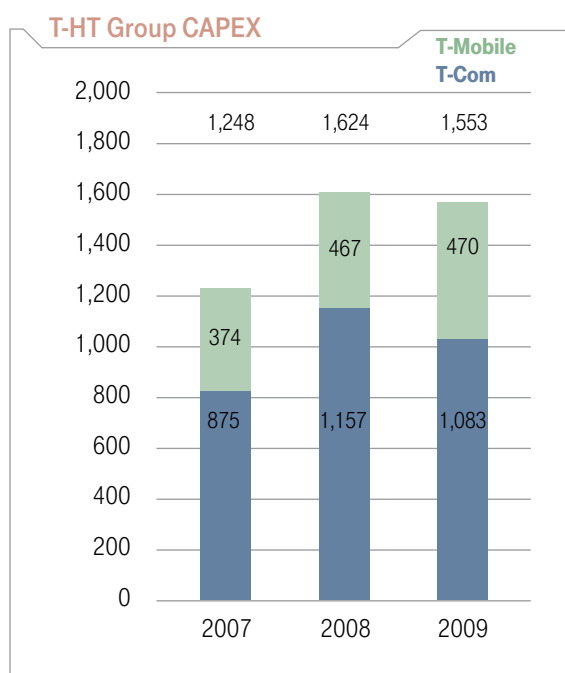
Total issued capital and reserves decreased to HRK 12,012 million (2008: HRK 12,440 million), mainly because of the lower retained earnings than in 2008 due to higher dividend paid in amount of HRK 2,421 million vs. realized profit for 2009 financial year in amount of HRK 2,023 million.

### 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 2008, net cash flow from operating activities decreased by 11.7% as a result of change

in billing method for subscription fee (fixed voice) on December bills (one-time net effect is HRK -88 million) and decrease in days payable outstanding and lower EBITDA. Net cash flow from investing activities decreased by 210.4% as a result of combined effects in 2009 and 2008 financial year, purchase of treasury bills in amount of HRK 818 million in 2009 and change in maturity structure of time deposits, from deposits over 3 months to deposits less than 3 months in 2008. Net cash flow from financing is a result of dividend payments and is higher than in 2008 by 1.0%.

## CAPEX



Capital expenditure decreased by 4.4% in 2009 to HRK 1,553 million (2008: HRK 1,624 million).

T-Com's capital expenditure decreased by 6.4% to HRK 1,083 million (2008: HRK 1,157 million), mainly due to lower investment in broadband access network and fleet.

T-Mobile's capital expenditure increased slightly by 0.6% to HRK 470 million (2008: HRK 467 million), mainly because of further investment in the development of the 2G and 3G network and platforms.

## Financial Results of the T-Com Segment

### Revenue

Total revenue from T-Com decreased by 2.8% to HRK 5,044 million (2008: HRK 5,191 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 a significant increase in revenues from Internet services, particularly ADSL and IPTV.

#### Fixed-telephony revenue

Fixed-telephony revenues decreased by 10.3% to HRK 2,506 million (2008: HRK 2,793 million), representing 49.7% of T-Com's revenues.

The decrease 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 2009; the number of CPS customers remained stable during 2009 at the level of 227,879 but number portability (NP) increased by 75,523 users. The combination of these factors produced 7.9% lower national traffic, 10.3% lower international traffic and 14.8% lower fixed-to-mobile traffic in 2009.

#### Revenue from Internet services

Revenue from Internet services increased by 27.7% to HRK 1,149 million in 2009 (22.8% of total T-Com revenue) from HRK 899 million in previous year. This is a result of shift from dial-up to broadband services and growth of new internet services.

Iskon's contribution to revenue after consolidation amounted to HRK 123 million in the period Jan-Dec 2009 and HRK 93 million in 2008.

ADSL customer base reached 554,995 customers in 2009 representing an increase of 17.4% from 472,654 in 2008. ARPU in ADSL increased by 3.8% compared to the same period in previous year, because of the strong promotions offered by T-Com in order to increase broadband penetration and retain the largest market share in Croatia. MAXtv, the Group's internet TV service, now reaches nearly 236,000 subscribers (including

Iskon's IPTV), an increase of 74.1% from the beginning of the year.

#### Revenue from Data services

Revenue from data services represents 3.6% of the total T-Com's revenues. It decreased in 2009 by 8.0% to HRK 183 million (2008: HRK 199 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.

#### Revenue from Wholesale services

Wholesale business segment represents 20.8% of total T-Com's revenue. Wholesale revenue decreased by 9.2% to HRK 1,049 million in 2009 from HRK 1,155 million in 2008. Decrease in dial up traffic occurred due to expected shift to broadband services. Further, revenues from interconnection leased lines services are lower than last year as a result of switching to new commercial models (interconnection on T-Com side). Decrease of international traffic to mobile destinations and price drop of international data services resulted in lower revenues. National and international hubbing volume decreased and negatively affected revenues. Termination and origination revenues decreased due to lower IC prices imposed by HAKOM (regulatory agency). On the other hand, positive trends are driven by higher revenue from providing infrastructure services for other fixed operators. Furthermore, international IP access generated higher revenue than last year due to increase of sold capacity.

### Operating Expenses

Operating expenses before depreciation and amortization decreased by 0.2% to HRK 3,509 million (2008: HRK 3,516 million), primarily because of decrease in the services expenses and other expenses.

The cost of merchandise, material and energy slightly decreased to HRK 507 million (2008: HRK 508 million) mainly due to higher cost of modems and terminal equipment for services

such as ADSL and IPTV and leveled out with lower material expenses.

Services expenses decreased by 8.9% to HRK 1,015 million (2008: HRK 1,114 million) primarily because of decrease in domestic and international telecommunications services costs as a result of lower revenue from fixed telephony and wholesale services.

Total employee benefits expenses (before exceptional items of HRK 148 million in 2009 and HRK 45 million in 2008) decreased by 1.3% to HRK 920 million (2008: HRK 931 million), mainly as a result of the continuing headcount reduction programme.

Other expenses decreased by 1.6% to HRK 876 million (2008: HRK 890 million). Main decrease occurs in rental and leasing expenses and advertising expenses.

The write down of assets increased from HRK 28 million in 2008 to HRK 43 million in 2009 as a result of lower collection of receivables due to recession.

Depreciation and amortization increased by 1.7% to HRK 908 million (2008: HRK 893 million).

## T-Com Profitability

### EBITDA

In 2009, EBITDA (before exceptional items of HRK 159 million in 2009 and HRK 45 million in 2008) decreased by 2.5% to HRK 2,019 million (2008: HRK 2,071 million), primarily because of lower revenue and other operating income. The EBITDA (before exceptional items) margin was 40.0% in 2009 (2008: 39.9%).

### EBIT

EBIT decreased by 16.0% to HRK 952 million (2008: HRK 1,133 million) as a result of EBITDA development and higher depreciation cost.

## CAPEX

Capital expenditure decreased by 6.4% to HRK 1,083 million (2008: HRK 1,157 million), mainly due to lower investment in broadband access network and fleet. The capex to sales ratio decreased by 0.8 percentage points to 21.5% of revenues (2008: 22.3 % of revenues).

## Financial Results of the T-Mobile Segment

### Revenue

T-Mobile's total revenue decreased by 5.0% in comparison to the year 2008. Revenue decrease was a result of lower prepaid (-13.9%) and postpaid (-5.0%) revenues, that were partially compensated with increase of other mobile revenues (+27.9%). Decrease of revenues from prepaid and postpaid is a result of economic recession, higher market penetration and adverse effects of new Government taxes, including 6% levy imposed on mobile telephony services in the last two quarters in 2009.

### Operating Expenses

In 2009 T-Mobile had total operating expenses before depreciation and amortization of HRK 2,481 million (2008: HRK 2,635 million), representing a decrease of 5.8%. This drop in expenses mainly resulted from direct costs decrease: decrease of costs of mobile merchandise and commissions related to SAC/SRC, as well as decrease of interconnection cost.

Direct costs decrease is, as well as in case of revenues, connected with economic situation in the country.

Material expenses decreased by 9.1% to HRK 1,469 million in 2009 from HRK 1,615 million in previous year. This decrease was mainly a result of reduced sales of mobile merchandise through both direct and indirect channels. Interconnection costs were lower due to new termination price that is in use from April 2009.

Total employee benefits expenses showed increase of 2.9% to HRK 234 million in 2009 from HRK 228 million in 2008.

Other expenses are on the same level as is in previous year.

In 2009, mobile telephony depreciation and amortization increased by 5.2% to HRK 494 million from HRK 469 million in 2008. This is mainly a result of higher amortization costs of intangible assets, which is related to replacement of packet core network software.

### T-Mobile Profitability

#### EBITDA

In 2009, EBITDA (before exceptional items of HRK 4 million in 2009) for mobile telephony decreased by 5.1% (to HRK 1,840 million from HRK 1,938 in 2008). This is result of 5.0% lower revenues compensated with the cost reduction (-5.8%).

Main reasons for EBITDA decrease compared to previous year were negative effects of governmental measures (VAT rate increase and specific contribution fee on mobile services of 6%).

The EBITDA (before exceptional items) margin is 43.9% and on the same level as previous year.

#### EBIT

In comparison with previous year EBIT for mobile telephony decreased by 8.7% to HRK 1,341 million from HRK 1,469 million. This decrease was a result of the above mentioned reasons.

#### CAPEX

Capital expenditure slightly increased by 0.6% to HRK 470 million (2008: HRK 467 million). It was mainly invested in further development of the 2G and 3G network and platforms. Consequently, the Capex to revenue ratio rose by 0.6 percentage points to 11.2% (2008: 10.6% of revenues).





# Consolidated financial statements

## 31 December 2009

General information

Independent Auditor's Report

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements



# General information

## Management report

Overview of operations for 2009 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 has 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.

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

8 February 2010

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; 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 8 February 2010.

On behalf of the Group,



Ivica Mudrinić  
President of the Management Board

# Independent Auditor's 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 a Consolidated statement of financial position as at 31 December 2009, a Consolidated statement of comprehensive income, a Consolidated statement of changes in equity, a Consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 77 to 122).

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Group as at 31 December 2009 and of the results of its operations and 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 and claim by the City of Zagreb

# Independent Auditor's Report (continued)

As explained in more detail in Note 11, part of T-HT's assets (including the ducts as part of infrastructure) does not have all necessary documents required under Croatian legislation and a major part is still not registered in the land registry. In this regard intrusions in T-HT ducts by competitors and some claims of ownership over these assets made by local authorities (primarily the City of Zagreb who is claiming the ownership over ducts on the area of the City of Zagreb and demanding a payment in amount of HRK 120 million plus interest, as explained in more detail in Note 28 c)), 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.

The Group assessed and declared the existence of the risks thereon, including obtaining a legal opinion with respect to certain of the issues involved; however, due to the fact that these issues are very complex and dependant on future legal proceedings and determinations. The Group was not able to positively determine the likelihood of 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.

## Dominant position abuse

As explained in more detail in Note 28 a), there have been several complaints made by T-HT's and T-Mobile Hrvatska d.o.o. competitors towards the Competition Protection Agency and Croatian Telecommunications Agency in regard to T-HT's and T-Mobile's alleged abuse of dominant position. Several proceedings are in progress.

T-HT and T-Mobile Hrvatska d.o.o. are vigorously defending these matters. There is no history of significant settlements in Croatia under either the Competition Law 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 in Note 28 a).

### Consumer Act claims

As explained in more detail in Note 28 b), T-HT is involved in legal proceedings for the alleged breach of the Consumer Protection Act in regard to the method of charging voice services and in regard to the monthly access charges. The claimants are residential customers of T-HT as well as the consumer protection association. T-HT has filed a counteraction and proceedings are in progress.

Management and the Group's legal advisers consider that these claims are without merit and the Group considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government.

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

8 February 2010

# Consolidated statement of comprehensive income

For the year ended 31 December 2009

72

Consolidated financial statements

	Notes	2009 HRK millions	2008 HRK millions Restated
Rendering of services		8,414	8,709
Sale of goods		103	82
Revenue	3	8,517	8,791
Other operating income		213	278
Merchandise, material and energy expenses		(1,054)	(1,102)
Service expenses	4	(1,266)	(1,357)
Employee benefits expenses		(1,302)	(1,202)
Gross salaries		(868)	(867)
Taxes, contributions and other payroll costs		(266)	(273)
Redundancy expenses	6	(152)	(48)
Other long-term employee benefits	20	(16)	(14)
Work performed by the Group and capitalised		169	159
Depreciation and amortisation	5	(1,365)	(1,346)
Impairment of non-current assets	5	(36)	(17)
Write down of current assets		(110)	(94)
Impairment of investments	12	-	(1)
Other expenses	7	(1,472)	(1,507)
Total operating costs		(6,436)	(6,467)
Operating profit		2,294	2,602
Interest income		301	356
Financial expense		(41)	(34)
Income from investment in joint venture	13	12	17
Share of profit of associate	12	-	1
Profit before taxes		2,566	2,942
Taxation	8	(542)	(632)
Profit for the year		2,024	2,310
Valuation losses from available for sale financial assets	14	(2)	(3)
Other		6	11
Other comprehensive income for the year, net of tax		4	8
Total comprehensive income for the year, net of tax		2,028	2,318
Earnings per share			
- basic and diluted, for profit for the year attributable to ordinary equity holders of the Company	9	HRK 24.72	HRK 28.21

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

# Consolidated statement of financial position

As at 31 December 2009

73

Consolidated financial statements

	Notes	31 December 2009 HRK millions	31 December 2008 HRK millions Restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	10	1,021	972
Property, plant and equipment	11	6,507	6,428
Investments in associate	12	2	2
Investment in joint venture	13	373	365
Available-for-sale investments	14	115	37
Goodwill		77	77
Non - current receivables		33	37
Deferred tax asset	8	46	60
<b>Total non-current assets</b>		<b>8,174</b>	<b>7,978</b>
<b>Current assets</b>			
Inventories	16	255	314
Trade and other receivables	17	1,466	1,319
Prepayments and accrued income		84	105
Income tax prepayments		39	-
Available-for-sale investments	14	257	53
Time deposits	18 b)	2	213
Cash and cash equivalents	18 a)	4,195	5,223
<b>Total current assets</b>		<b>6,298</b>	<b>7,227</b>
<b>TOTAL ASSETS</b>		<b>14,472</b>	<b>15,205</b>

# Consolidated statement of financial position (continued)

As at 31 December 2009

74

Consolidated financial statements

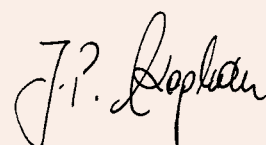
	Notes	31 December 2009 HRK millions	31 December 2008 HRK millions Restated
<b>EQUITY AND LIABILITIES</b>			
<b>Issued capital and reserves</b>			
Issued capital	23	8,189	8,189
Legal reserves	24	409	409
Fair value reserves		(3)	(1)
Retained earnings	25	3,417	3,843
<b>Total issued capital and reserves</b>		<b>12,012</b>	<b>12,440</b>
<b>Non-current liabilities</b>			
Provisions for legal cases and other provisions	22	116	90
Provisions for redundancy	6	113	-
Employee benefit obligations	20	192	187
Deferred income	21	103	128
Long-term loans and other long-term liabilities		25	21
<b>Total non-current liabilities</b>		<b>549</b>	<b>426</b>
<b>Current liabilities</b>			
Trade and other payables	19	1,459	1,657
Provisions for redundancy	6	7	139
Other accruals	26	183	157
Deferred income	21	261	342
Income tax payable		-	41
Short-term borrowings and current portion of long-term loans		1	3
<b>Total current liabilities</b>		<b>1,911</b>	<b>2,339</b>
<b>Total liabilities</b>		<b>2,460</b>	<b>2,765</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,472</b>	<b>15,205</b>

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

Signed on behalf of HT Group on 8 February 2010:



Ivica Mudrinić



Jürgen P. Czapan



# Consolidated statement of cash flows

For the period ended 31 December 2009

75

Consolidated financial statements

	Notes	2009 HRK millions	2008 HRK millions Restated
<b>Operating activities</b>			
Net profit		2,024	2,310
Depreciation charges	5	1,365	1,346
Impairment loss of non-current assets	5	36	17
Income tax expense	8	542	632
Interest income		(262)	(328)
Gain on disposal of assets		-	(13)
Income from investment in joint venture	13	(12)	(17)
Decrease/(increase) in inventories		59	(111)
Increase in receivables and prepayments		(205)	(151)
(Decrease)/increase in payables and accruals		(212)	98
Increase/(decrease) in employee benefit obligations	20	5	(14)
Interest paid		(6)	(7)
Increase in provisions		7	15
Value adjustment of inventories		-	27
Other non-cash items		(6)	7
<b>Taxes paid</b>		<b>(599)</b>	<b>(699)</b>
<b>Net cash flows from operating activities</b>		<b>2,736</b>	<b>3,112</b>
<b>Investing activities</b>			
Purchase of non-current assets	10,11	(1,553)	(1,624)
Proceeds from sale of non-current assets		24	39
Purchase of non-current financial assets		(75)	-
Proceeds from sale of non-current financial assets		2	14
Purchase of current financial assets		(310)	-
<b>Proceeds from sale of current financial assets</b>		<b>319</b>	<b>2,376</b>
<b>Interest received</b>		<b>280</b>	<b>380</b>
Dividend received		4	-
<b>Net cash flows (used in)/from investing activities</b>		<b>(1,309)</b>	<b>1,185</b>
<b>Financing activities</b>			
Repayment of long-term borrowings		-	(1)
Repayment of lease liability		(2)	(11)
Dividends paid	25	(2,456)	(2,421)
<b>Net cash flows used in financing activities</b>		<b>(2,458)</b>	<b>(2,433)</b>
Net (decrease)/increase in cash and cash equivalents		(1,031)	1,864
Effect of F/X rate changes on cash and cash equivalents		3	(8)
Cash and cash equivalents at 1 January		5,223	3,367
Cash and cash equivalents at 31 December	18 a)	4,195	5,223

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

# Consolidated statement of changes in equity

For the year ended 31 December 2009

76

Consolidated financial statements

	Issued capital HRK millions (Note 23)	Legal reserves HRK millions (Note 24)	Fair value reserves HRK millions	Retained earnings HRK millions (Note 25)	Total HRK millions
Balance as at 1 January 2008	8,189	409	2	3,943	12,543
Paid dividends	-	-	-	(2,421)	(2,421)
Profit for the year	-	-	-	2,310	2,310
Other comprehensive income	-	-	(3)	11	8
Balance as at 31 December 2008	8,189	409	(1)	3,843	12,440
Paid dividends	-	-	-	(2,456)	(2,456)
Profit for the year	-	-	-	2,024	2,024
Other comprehensive income	-	-	(2)	6	4
Balance as at 31 December 2009	8,189	409	(3)	3,417	12,012

The accompanying accounting policies and notes are an integral part of this consolidated statement of changes in equity.

# Notes to the consolidated financial statements

For the year ended 31 December 2009

77

Consolidated financial statements

## 2 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 2009 was 6,116 (31 December 2008: 6,487).

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 2009 were authorised for issue in accordance with a resolution of the Management Board on 8 February 2010. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments stated at fair value (Note 14), as disclosed in the accounting policies hereafter.

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

#### Ownership Interest

Entity	Country	31 December of Business 2009	31 December of Business 2008
T Mobile Hrvatska d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%

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 are prepared in accordance with International Financial Reporting Standards (IFRS).

### 2.2 Changes in accounting policy and disclosures

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. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

#### IFRS 2 Share based payment: Vesting Conditions and Cancellations, and Group Cash-settled Share based Payment Transactions (early adopted)

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

78

Consolidated financial statements

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for Group cash-settled share-based payment transactions. The Group early adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

## **IFRS 3 Business Combinations (Revised) (early adopted) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

The Group has early adopted the revised standard from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Both changes in accounting policy, IFRS 3 (Revised) and IAS 27 (Amended) had no impact on the financial position or performance of the Group as no acquisitions have been made on or after 1 January 2009.

## **IFRS 7 Financial Instruments: Disclosures**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial

instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurement is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 14. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 30.

## **IFRS 8 Operating Segments**

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 3.

## **IAS 1 Presentation of Financial Statements**

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement of comprehensive income.

## **IAS 23 Borrowing Costs (Revised)**

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. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. However, during the financial year that ended on 31 December 2009 the Group has not capitalised

any borrowing costs on qualifying assets as no borrowings were incurred.

#### **IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation**

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

#### **IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009) (early adopted)**

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The early adoption of this amendment by the Group did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

#### **IFRIC 9 Remeasurement of Embedded Derivatives (early adopted) and IAS 39 Financial Instruments: Recognition and Measurement**

This amendment to IFRIC 9 requires the Group to assess whether an embedded derivative must

be separated from a host contract when the Group reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the Group first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The Group early adopted this amendment, which did not have any impact on the financial position or performance of the Group, as the Group has not identified any such embedded derivatives.

#### **IFRIC 13 Customer Loyalty Programmes**

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Group maintains a loyalty point's programme, T-Club, within its Fixed and Mobile telephony segments and has historically recorded a liability at the time of the sale based on the costs expected to be incurred to supply products in the future. IFRIC 13 has no specific provisions on transition. Therefore, the Group has followed IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, applying the changes retrospectively. The prior year financial information has therefore been restated.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

80

Consolidated financial statements

As a result of the adoption of IFRIC 13, the following adjustments were made to the 2008 financial information:

As of 1 January 2008:	HRK millions
Net increase in liabilities:	-
Net decrease in opening retained earnings:	-
As of 31 December 2008:	HRK millions
Decrease in other accruals and non-current provisions:	(50)
Increase in deferred income:	50
Decrease in rendering of services:	(25)
Increase in other operating income:	4
Decrease in merchandise, material and energy expenses and provisions for charges and risks:	21

There was no effect on earnings per share related to the restatement in 2008.  
For the amended revenue recognition policy refers to Note 2.4. o).

## IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008) (adopted prospectively)

IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risk that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how the Group should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group's adopted this interpretation prospectively and did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

## IFRIC 17 Distributions of Non-cash Assets to Owners (early adopted)

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise

the asset and liability. The Group's early adoption of this interpretation did not have any impact on its financial position or performance as the Group has not made non-cash distributions to shareholders.

## IFRIC 18 Transfers of Assets from Customers (effective from 1 July 2009) (early adopted)

IFRIC 18 clarifies the requirements of IFRSs for agreements in which the Group receives from a customer an item of property, plant, and equipment that the Group must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas, water or telephony). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The Group's early adoption of IFRIC 18 did not have any impact on its financial position or performance, as the Group does not receive any considerations of this kind from its customers.

## Improvements to IFRSs

In May 2008 and April 2009 the IASB issued 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 adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 3.
- 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 statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have any impact on the presentation in the statement of cash flows of the contingent consideration on the business combinations completed in 2009 upon cash settlement as there were no business combinations in 2009.
- IAS 16 Property, Plant and Equipment: Replaces 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 18 Revenues: The Board has added guidance (which accompanies the standard) to determine whether a Group is acting as a principal or as an agent. The features to consider are whether the Group:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements except for those cases where it acts as a mere provider of its telecommunications infrastructure during the provision of value added services (VAS) by partner companies. When the Group acts as a principal, its revenue includes the gross inflows of economic benefits received and receivable by the Group on its own account. In agency or intermediary relationships, the amounts collected on behalf of the principal are not revenue. Instead, revenue is exclusively the amount of commission and is consequently reported on a net basis. The liability to the external supplier is recognised directly in the accounts of the end customer. The Group has updated the revenue recognition accounting policy accordingly. Due to the fact that all revenues connected to the provision of value added services had previously been stated on a net basis, the adoption of this amendment did not have any impact on the financial position or performance of the Group.

- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as no government grants or assistance have been received.
- 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



# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

82

Consolidated financial statements

Group has amended its accounting policy accordingly which did not result in any change in its financial position.

- 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 had no immediate impact on the financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the operating segment is the same as the reporting segment.

- 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 costs for such activities have also previously immediately been expensed.

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.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- IFRS 2 Share-based Payments
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments In Associates
- IAS 31 Interest In Joint Ventures
- IAS 34 Interim Financial Reporting

- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Properties
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

## Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below:

### IFRS 9 Financial Instruments

On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting. By the end of 2010 the IAS 39 will be completely replaced by IFRS 9. The Group plans to adopt this new standard on its effective date.

### IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

On 26 November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments which clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The Group does not expect IFRIC 19 to have an impact on the financial statements as the Group does not negotiate such terms with its creditors.



### **Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011)**

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

### **Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010)**

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

### **Amendment to IFRS 1 First time adoption - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective 1 July 2010)**

The amendment clarifies that first time adopters do not need to provide comparative disclosures as introduced by the IFRS 7 amendment issued in March 2009. The amendment does not affect the financial statements of the Group.

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

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

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

### **Provisions and contingencies**

The Group is exposed to a number of legal cases and regulatory proceedings that may result in significant outflow of economic resources. The Group uses internal and external legal experts to assess outcome of each case and makes judgments if and what amount needs to be provided for in the financial statements as more explained in Notes 22 and 28.

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

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The 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 ten years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance 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. 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.

### **Revenue recognition - T-Club loyalty program**

The Group estimates the fair value of points awarded under the T-Club program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As at 31 December 2009, the estimated liability for unredeemed points was approximately HRK 70 million (31 December 2008: HRK 50 million).

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

84

Consolidated financial statements

## 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 associates and joint venture, 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 acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date, fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. 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 venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group 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 an indefinite useful life. The amortisation method is reviewed annually at each financial year-end.

Amortization of the UMTS licence has started when operations for the UMTS network started its commercial use, the amortization period is the term of the licence.

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

The determination of impairment of assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on 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

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

86

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 statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available for sale are not recognised in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

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

## 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 statement of financial position 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 statement of financial position 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 statement of financial position 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 statement of financial position. 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 in other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period in other comprehensive income.

#### n) Employee benefit obligations

The Group provides other long-term employee benefits (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 in other comprehensive income immediately in the period in which they occur. 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 benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognised in other comprehensive income in the period in which they occur.

The Group provides death in service short term benefit which is recognised as an expense of the period in which it incurred.

#### o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Group has concluded that it is acting as a principal in all of its revenue arrangements with the exception of the provision of its telecommunications infrastructure to third parties that offer value added services to its customer. In these cases, the Group is acting as an agent. The following specific recognition criteria must also be met before revenue is recognised:

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 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 (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



# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

88

Consolidated financial statements

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.

Revenues from the provision of its network to the provider of value added services are reported on a net basis. Revenues are exclusively the amount of the commission received. 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). The Group maintains a loyalty point's programme, T-Club, within its Fixed and Mobile telephony segment. In accordance with IFRIC 13, customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed.

## p) Cash and cash equivalents

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

## q) Borrowings

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

Borrowings are initially 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 statement of financial position 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 statement of financial position date.

Gains or losses on measurement to the fair value of available-for-sale investments are recognised in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the 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 statement of financial position date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is 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 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 statement of financial position date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

#### v) Events after reporting period

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements

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.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

90

Consolidated financial statements

## 3 Segment information (continued)

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

<b>Business segments</b>					
<b>Year ended</b>	<b>T-Com</b>	<b>T-Mobile</b>	<b>Reclassified</b>	<b>Eliminations</b>	<b>Total</b>
<b>31 December 2009</b>	<b>HRK millions</b>	<b>HRK millions</b>	<b>HRK millions</b>	<b>HRK millions</b>	<b>HRK millions</b>
<b>Revenue</b>					
Fixed telephony	2,505	-	-	-	2,505
Wholesale services	756	-	(60)	-	696
Internet services	1,146	-	-	-	1,146
Data services	183	-	-	-	183
Mobile telephony	-	3,831	137	-	3,968
Miscellaneous	96	-	(77)	-	19
<b>Sales to external customers</b>	<b>4,686</b>	<b>3,831</b>	<b>-</b>	<b>-</b>	<b>8,517</b>
Inter-segment sales	359	357	-	(716)	-
<b>Total revenue</b>	<b>5,045</b>	<b>4,188</b>	<b>-</b>	<b>(716)</b>	<b>8,517</b>
<b>Results</b>					
Segment results	953	1,341	-	-	2,294
Net finance revenue	148	124	-	-	272
<b>Profit before income tax</b>	<b>1,101</b>	<b>1,465</b>	<b>-</b>	<b>-</b>	<b>2,566</b>
Income tax expense	(240)	(302)	-	-	(542)
<b>Profit for the year</b>	<b>861</b>	<b>1,163</b>	<b>-</b>	<b>-</b>	<b>2,024</b>
<b>As at 31 December 2009</b>					
<b>Assets and liabilities</b>					
Segment assets	10,573	5,142	-	(1,618)	14,097
Investment in associate	2	-	-	-	2
Investment in joint venture	373	-	-	-	373
<b>Total assets</b>	<b>10,948</b>	<b>5,142</b>	<b>-</b>	<b>(1,618)</b>	<b>14,472</b>
Segment liabilities	1,559	1,041	-	(140)	2,460
<b>Total liabilities</b>	<b>1,559</b>	<b>1,041</b>	<b>-</b>	<b>(140)</b>	<b>2,460</b>
<b>Other segment information</b>					
<b>Capital expenditure:</b>					
Property, plant and equipment	920	248	-	-	1,168
Intangible assets	163	222	-	-	385
Depreciation	737	292	-	-	1,029
Amortisation	167	169	-	-	336
Impairment losses recognised in statement of comprehensive income	(3)	(33)	-	-	(36)
<b>Provisions and employee benefit liabilities</b>	<b>262</b>	<b>46</b>	<b>-</b>	<b>-</b>	<b>308</b>



## Business segments

Year ended 31 December 2008	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
<b>Revenue</b>					
Fixed telephony	2,791	-	-	-	2,791
Wholesale services	836	-	(117)	-	719
Internet services	898	-	-	-	898
Data services	199	-	-	-	199
Mobile telephony	-	3,975	200	-	4,175
Miscellaneous	92	-	(83)	-	9
<b>Sales to external customers</b>	<b>4,816</b>	<b>3,975</b>	-	-	<b>8,791</b>
Inter-segment sales	376	436	-	(812)	-
<b>Total revenue</b>	<b>5,192</b>	<b>4,411</b>	-	<b>(812)</b>	<b>8,791</b>
<b>Results</b>					
Segment results	1,133	1,469	-	-	2,602
Net finance revenue	241	99	-	-	340
<b>Profit before income tax</b>	<b>1,374</b>	<b>1,568</b>	-	-	<b>2,942</b>
Income tax expense	(299)	(333)	-	-	(632)
<b>Profit for the year</b>	<b>1,075</b>	<b>1,235</b>	-	-	<b>2,310</b>
<b>As at 31 December 2008</b>					
<b>Assets and liabilities</b>					
Segment assets	10,883	4,123	-	(168)	14,838
Investment in associate	2	-	-	-	2
Investment in joint venture	365	-	-	-	365
<b>Total assets</b>	<b>11,250</b>	<b>4,123</b>	-	<b>(168)</b>	<b>15,205</b>
Segment liabilities	1,746	1,187	-	(168)	2,765
<b>Total liabilities</b>	<b>1,746</b>	<b>1,187</b>	-	<b>(168)</b>	<b>2,765</b>
<b>Other segment information</b>					
<b>Capital expenditure:</b>					
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 statement of comprehensive income	(14)	(3)	-	-	(17)
Provisions and employee benefit liabilities	250	27	-	-	277

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

92

Consolidated financial statements

## 3 Segment information (continued)

### Revenue - by geographical area

	2009 HRK millions	2008 HRK millions Restated
Republic of Croatia	7,806	7,949
Rest of the World	711	842
	<b>8,517</b>	<b>8,791</b>

## 4 Service expenses

	2009 HRK millions	2008 HRK millions
Domestic interconnection	547	558
International interconnection	459	543
Other services	260	256
	<b>1,266</b>	<b>1,357</b>

## 5 Depreciation, amortisation and impairment of non-current assets

	2009 HRK millions	2008 HRK millions
Depreciation	1,029	1,014
Amortisation	336	332
	1,365	1,346
Impairment loss	36	17
	<b>1,401</b>	<b>1,363</b>

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

## 6 Redundancy expenses

	2009 HRK millions	2008 HRK millions
Provision at 1 January - current	139	231
Additions charged to the statement of comprehensive income	39	48
Utilisation	(171)	(140)
<b>Provision at 31 December - current</b>	<b>7</b>	<b>139</b>

	2009 HRK millions	2008 HRK millions
Provision at 1 January - non current	-	-
Additions charged to the statement of comprehensive income	113	-
<b>Provision at 31 December - non current</b>	<b>113</b>	-

Redundancy expenses and provisions include the amount of gross severance payments for employees whose employment contracts will be terminated after 31 December 2009 and 31 December 2010, respectively, due to business reasons.

## 7 Other expenses

	2009 HRK millions	2008 HRK millions Restated
Maintenance services	379	369
Advertising	234	287
Rent (Note 27)	142	187
Licence cost	121	105
Selling commission	118	129
Postal expenses	107	68
Contract workers	66	89
Non - income taxes & contribution	55	56
Education and consulting	45	56
Call centre and customer care support	39	12
Daily allowances and other costs of business trips	23	25
Insurance	16	14
Provision for charges and risks (Note 22)	11	22
Loss on disposal of fixed assets	9	7
Other operating charges	107	81
	<b>1,472</b>	<b>1,507</b>

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

94

Consolidated financial statements

## 8 Taxation

### a) Tax on profit

	2009	2008
	HRK millions	HRK millions
Current tax expense	528	620
Deferred tax expense	14	12
<b>Taxation</b>	<b>542</b>	<b>632</b>

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

	2009	2008
	HRK millions	HRK millions
Profit before taxation	2,566	2,942
Income tax at 20% (domestic rate)	513	588
Tax effects of not taxable income:		
Dividends received and incentives	(2)	(3)
Related to provision for bad debts and value adjustment	(7)	(3)
Revenues taxed in previous years	(4)	-
Lower depreciation	(5)	-
Other	(6)	(11)
Tax effects of expenses not deductible in determining taxable profits:		
Tax for previous years	10	11
Provision for bad debt, value adjustment and accruals	9	18
Entertainment expenses and car usage	4	5
Other	16	15
Deferred tax expense	14	12
Taxation	542	632
Effective tax rate	21.12%	21.48%

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

	31 December 2009 HRK millions	Charge to statement of comprehensive income HRK millions	31 December 2008 HRK millions
Deferred tax asset			
Property, plant and equipment write down	16	(5)	21
Deferred revenue from connection fees	15	(4)	19
Non-tax deductible value adjustments	12	(4)	16
Accruals for commissions	-	(3)	3
Other	3	2	1
<b>Total deferred tax assets</b>	<b>46</b>	<b>(14)</b>	<b>60</b>

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 that year. Of this amount, HRK 315 million became tax deductible in the period from 2002 to 2009, and the remaining HRK 80 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 the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period

of three years starts with the year that follows the year of submission of tax declarations, i.e. 2010 for the 2009 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until the absolute statute of limitation of 6 years expires.

## 9 Earnings per share

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

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

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

	2009	2008
<b>Profit for the year attributable to ordinary equity holders of the Company in HRK millions</b>	<b>2.024</b>	<b>2.310</b>
Weighted average number of ordinary shares for basic earnings per share	81,888,535	81,888,535

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

96

Consolidated financial statements

## 10 Intangible assets

	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
<b>Cost</b>					
At 1 January 2008	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
Disposal	(15)	(176)	-	-	(191)
At 31 December 2008	608	1,510	91	79	2,288
Additions	72	198	16	99	385
Transfers	41	97	4	(142)	-
Transfers from property, plant and equipment	-	62	-	53	115
<b>Disposals</b>	<b>(44)</b>	<b>(56)</b>	<b>-</b>	<b>-</b>	<b>(100)</b>
<b>At 31 December 2009</b>	<b>677</b>	<b>1,811</b>	<b>111</b>	<b>89</b>	<b>2,688</b>
<b>Accumulated amortisation</b>					
At 1 January 2008	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
<b>Charge for the year</b>	<b>65</b>	<b>253</b>	<b>18</b>	<b>-</b>	<b>336</b>
<b>Impairment loss</b>	<b>7</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>22</b>
Transfers from property, plant and equipment	-	62	-	-	62
<b>Disposals</b>	<b>(22)</b>	<b>(47)</b>	<b>-</b>	<b>-</b>	<b>(69)</b>
<b>At 31 December 2009</b>	<b>419</b>	<b>1,204</b>	<b>44</b>	<b>-</b>	<b>1,667</b>
<b>Net book value</b>					
At 31 December 2008	239	589	65	79	972
At 31 December 2009	258	607	67	89	1,021

The intangible assets of the Group as of 31 December 2009 include the UMTS licence with the carrying value of HRK 101 million (31 December 2008: HRK 108 million). The UMTS licence is amortised over a period of 20 years (starting from June 2005).

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

#### Additions of intangible assets

Major additions in the reporting period relate to GSM licence of HRK 50 million, GSM related software of HRK 33 million, UMTS related software of HRK 14 million, the billing software in the shops of HRK 9 million, internal reporting software of HRK 9 million, billing software of HRK 19 million, software for business process management and optimization of

HRK 7 million and other software investments into the Group's intangible assets related to network and infrastructure of HRK 21 million.

#### Impairment loss

During 2009, the Group recognised an impairment loss of intangible assets in the amount of HRK 22 million (2008: HRK 2 million) which mainly relates to licences and software 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 statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

## 11 Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicle IT and office equipment	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
<b>Cost</b>					
At 1 January 2008	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
Additions	84	759	44	281	1,168
Transfers	67	475	55	(597)	-
Transfers to intangible assets	-	(62)	-	(53)	(115)
<b>Disposals</b>	<b>(3)</b>	<b>(58)</b>	<b>(65)</b>	<b>22</b>	<b>(104)</b>
At 31 December 2009	1,938	11,088	1,000	478	14,504
<b>Accumulated depreciation</b>					
At 1 January 2008	653	5,064	560	4	6,281

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

98

Consolidated financial statements

## 11. Property, plant and equipment (continued)

	Land and buildings	Telecom plant and machinery	Tools, vehicle IT and office equipment	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
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
Charge for the year	94	826	109	-	1,029
Impairment loss	-	10	4	-	14
Transfers to intangible assets	-	(62)	-	-	(62)
Disposals	(2)	(54)	(54)	(1)	(111)
At 31 December 2009	822	6,493	677	5	7,997
Net book value					
At 31 December 2008	1,060	4,201	348	819	6,428
At 31 December 2009	1,116	4,595	323	473	6,507

Included within assets under construction of the Group are major spare parts of HRK 35 million (31 December 2008: HRK 55 million), net of a provision of HRK 4 million (31 December 2008: 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

In 2009, the Group recognised an impairment loss of property, plant and equipment of HRK 14 million (2008: HRK 15 million) which mainly relates to hardware for transfer of data due to an advance in technology. The recoverable amount of that equipment is its fair value less costs to sell, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction

between knowledgeable, willing parties, after deducting the costs of disposal.

### Disposal of property, plant and equipment

The disposal of the Group's property, plant and equipment primarily relates to the disposal of telecommunications plant and equipment of HRK 40 million and disposal of old tools, IT and office equipment of HRK 65 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, TI 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.



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 and City of Split present the majority of problems), may have a material effect on the financial statements in the case that T-HT will not be able to prove its ownership rights for some ducts.

The Company formed the Documentation and Infrastructure Operations Department that is responsible to assure that all network technology related assets are properly legalised, documented and that this documentation is available to all relevant departments and authorities. The overall process is slow and complex since the registration depends not only on T-HT but also on local and state authorities. Since the year 2006 the actions of T-HT have been concentrated on the conclusion of right of servitude contracts with local municipalities and right of use contracts with Croatian and County roads. T-HT has concluded right of servitude contracts with following cities: Rijeka, Dubrovnik, Varaždin, Čakovec, Gospić, Požega, Pula, Bjelovar, Slavonski Brod, Krapina, Karlovac, Šibenik, Vukovar, Virovitica, Sisak and many other smaller cities and communities. T-HT has also concluded right of use contracts with the state owned companies Croatian Roads (for all of roads under their management) and with County Roads (17 of 21 counties).

The legalization process is to be speeded up due to new Law on Electronic Communications which obliges local municipality and other owners of land used for the construction of telecommunication infrastructure to give T-HT the 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 and Ordinance on Certificate and Fees for the Right of Way (entered into force on 31 March 2009) open new possibilities for negotiations with local authorities and County Roads that do not want to conclude right of servitude and right of use contracts, since a new right of way contract is introduced that could settle outstanding legal and ownership issues.

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 ("Agency"). In December 2008 the Agency passed an Ordinance on Manner and

Conditions for Access and Joint Use of Electronic Communications Infrastructure and Related Equipment (Official Gazette No. 154/08 effective as at 6 January 2009) which replaces the Terms for Joint Use and regulates the issue in similar manner. In February 2009 the Agency passed an Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 31/09 effective as of 19 March 2009), regulating the conditions for issuance of certificate and fees for right of way. The fees for right of way are determined, depending on the nature of the land in use, in the amount from 4 to 10 HRK/m<sup>2</sup>.

In connection with the offer for sale of ordinary shares held by the Government of Republic of Croatia (RoC), the Company 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 obtaining legal opinions with respect to certain of the issues involved; however, due to the fact that these issues are very complex so far the Group has not yet been able to determine the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to any inability to prove title or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect. Therefore, no adjustments were made to these financial statements in respect of this matter.

The net book value of all the Group's ducts as at 31 December 2009 is HRK 887 million (31 December 2008: HRK 857 million).

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

100

Consolidated financial statements

## 12 Investments in associate

The net book value of investments in associate comprises:

	31 December 2009	31 December 2008
	HRK millions	HRK millions
HP d.o.o. Mostar	2	2

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

The movement in investments in associates of the Group during the year ended 31 December 2009 and during the year ended 31 December 2008 was as follows:

	2009	2008
	HRK millions	HRK millions
The net book value		
At 1 January	2	2
Share of profits	-	1
Impairment of investments	-	(1)
At 31 December	2	2

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

	31 December 2009	31 December 2008
	Unaudited	Audited
	HRK millions	HRK millions
<b>Share of the associates statements of financial position:</b>		
Current assets	26	24
Non-current assets	20	29
Current liabilities	(15)	(12)
Non-current liabilities	(2)	(11)
<b>Net assets</b>	<b>29</b>	<b>30</b>
	<b>2009</b>	<b>2008</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>Share of the associate revenue and profit:</b>		
Revenue	32	21
Profit	-	1

### 13 Investment in joint venture

The net book value of investments in joint venture comprises:

	31 December 2009	31 December 2008
	HRK millions	HRK millions
HT d.o.o. Mostar	373	365
	<b>373</b>	<b>365</b>

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

The Group's share in HT d.o.o. Mostar unaudited results for the year ended 31 December 2009, is recognised in the statement of comprehensive income in the amount of HRK 12 million (2008: HRK 17 million was recognised based on unaudited results and comprise of HRK 6 million of profit for the year ended 31 December 2008 which was later confirmed by the audit report, and an additional upward adjustment of HRK 11 million after the jointly controlled entity's final audited result for 2007 had been available).

On 4 August 2009 T-HT was paid a dividend of HRK 4 million by HT d.o.o. Mostar for the financial year of 2007. Accordingly the net book value of this investment in joint venture was reduced by the same amount.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

102

Consolidated financial statements

	31 December 2009	31 December 2008
	Unaudited	Audited
	HRK millions	HRK millions
<b>Share of the jointly controlled entity statement of financial position:</b>		
Current assets	74	73
Non-current assets	617	600
Current liabilities	(118)	(115)
Non-current liabilities	(100)	(85)
Net assets	473	473
	2009	2008
	Unaudited	Audited
<b>Share of the jointly controlled entity revenue and profit:</b>		
Revenue	353	365
Profit	12	6

## 14 Available-for-sale investments

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

	Currency	Interest rate	Maturity	31 December 2009	31 December 2008
Issuer				HRK millions	HRK millions
Government of Croatia	HRK	4.75%	8 February 2017	32	28
Government of Germany	EUR	1.25%	11 March 2011	74	-
Other equity securities	HRK			9	9
				115	37

Current available-for-sale investments include the following:

				31 December 2009	31 December 2008
				HRK millions	HRK millions
<b>Unit holdings in money market funds:</b>					
ZB Plus				-	53
<b>Bonds:</b>					
Government of France	EUR	3.00%	12 January 2010	37	-
Government of the Netherlands	EUR	3.00%	15 January 2010	37	-
Government of Germany	EUR	3.00%	12 March 2010	73	-
Government of Germany	EUR	3.25%	9 April 2010	37	-
<b>Foreign treasury bills:</b>					
Government of Germany	EUR	1.00%	12 May 2010	73	-
				257	53

The estimated fair value of investments in treasury bills and bonds at 31 December 2009 is determined by reference to their market value offered on the secondary capital market which is an active market at the statement of financial position date and belong to the first financial instruments hierarchy category. No changes among financial instruments hierarchy categories.

## 15 Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the T-Com cash-generating unit, which is also a reporting segment, for impairment testing.

The recoverable amount of the T-Com unit has been determined based on the value in use calculation using cash flow projections from financial budgets covering a ten-year period. The post-tax discount rate applied to cash flow projections is 10.93%

(2008: 8.67%) and cash flows beyond the ten-year period are extrapolated using a 2.0% growth rate (2008: 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

	31 December 2009	31 December 2008
	HRK millions	HRK millions
Merchandise	106	175
Inventories and spare parts	149	139
	255	314

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

104

Consolidated financial statements

## 17 Trade and other receivables

	31 December 2009	31 December 2008
	HRK millions	HRK millions Restated
Trade receivables	1,392	1,234
Other receivables	74	85
	<b>1,466</b>	<b>1,319</b>

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				>120 days
			< 30 days	31-60 days	61-90 days	91-120 days	
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
<b>31 Dec 2009</b>	1,392	953	296	76	38	19	10
<b>31 Dec 2008</b>	1,234	794	292	89	28	17	14

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

As at 31 December 2009, trade receivables with a nominal value HRK 946 million (31 December 2008: HRK 883 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2009	2008
	HRK millions	HRK millions
<b>At 1 January</b>	<b>883</b>	<b>878</b>
Charge for the year	184	162
Unused amounts reversed	(121)	(157)
<b>At 31 December</b>	<b>946</b>	<b>883</b>

## 18 Cash and cash equivalents and time deposits

### a) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	31 December 2009	31 December 2008
	HRK millions	HRK millions
Cash on hand and balances with banks	465	35
Time deposits with maturity less than 3 months	3,730	5,188
<b>Cash and cash equivalents</b>	<b>4,195</b>	<b>5,223</b>

### b) Time deposits with maturities more than 3 months

	31 December 2009	31 December 2008
	HRK millions	HRK millions
Zagrebačka banka d.d.	1	2
Hrvatska poštanska banka d.d.	1	26
Erste Steiermarkische Bank d.d.	-	135
Raiffeisenbank Austria d.d.	-	50
	<b>2</b>	<b>213</b>

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

	31 December 2009	31 December 2008
	HRK millions	HRK millions
HRK	3,586	4,552
EUR	575	857
USD	36	27
	<b>4,197</b>	<b>5,436</b>

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

106

Consolidated financial statements

## 19 Trade and other payables

	31 December 2009 HRK millions	31 December 2008 HRK millions Restated
Trade payables	1,355	1,544
Payroll and payroll taxes	68	72
VAT and other taxes payable	16	19
Other creditors	20	22
	<b>1,459</b>	<b>1,657</b>

## 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 other comprehensive income/expense in the period in which they occur.

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

	2009 HRK millions	2008 HRK millions
At 1 January	187	201
Service costs recognised in the statement of comprehensive income	16	14
Interest costs recognised in the statement of comprehensive income	12	-
Payments made under scheme	(16)	(15)
Actuarial gains	(7)	(13)
At 31 December	<b>192</b>	<b>187</b>



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

	2009 %	2008 %
Discount rate (annually)	6.5	6.5
Wage and salary increases (annually)	4.5	4.5

## 21 Deferred income

	31 December 2009 HRK millions	31 December 2008 HRK millions Restated
Connection fee	102	128
Other	1	-
Deferred income - non current	103	128
Prepaid vouchers	140	208
Connection fee	33	35
Customer loyalty programme	70	50
Monthly fee	-	23
Other	18	26
Deferred income - current	261	342
	<b>364</b>	<b>470</b>

The billing procedure regarding the monthly fees for data and wholesale services was changed by the Group during the financial year from invoicing for the following month to invoicing for the current month. The Group now bills monthly fees for retail fixed, mobile, data, online services and wholesale services for the current month. The connection fee is recognised on a straight-line basis throughout future periods depending on the average useful life of a single customer line.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

108

Consolidated financial statements

## 22 Provisions for legal cases and other provisions

	2009 HRK millions	2008 HRK millions Restated
At 1 January	90	90
Additions (Note 7)	11	22
Asset retirement obligation	15	
Reclassification of customer loyalty programme	-	(15)
Utilisation	-	(7)
At 31 December	116	90

As at 31 December 2009 the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to be decided against the Group.

## 23 Issued capital

Authorised, issued, fully paid and registered share capital

	31 December 2009 HRK millions	31 December 2008 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 2009.

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

## 25 Retained earnings

In 2009 the Group paid a dividend of HRK 2,456 million (2008: HRK 2,421 million), respectively HRK 29.99 per share (2008: HRK 29.56).

## 26 Other accruals

	31 December 2009	31 December 2008
	HRK millions	HRK millions Restated
Variable salary to employees	94	86
Unused vacation	35	33
Handset budget programme	52	37
Other	2	1
	<b>183</b>	<b>157</b>

## 27 Commitments

### a) Operating lease commitments

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

	2009	2008
	HRK millions	HRK millions
Current year expense (Note 7)	142	187

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

	31 December 2009	31 December 2008
	HRK millions	HRK millions
Within one year	105	134
Between 2 and 5 years	378	494
Greater than 5 years	273	466
	<b>756</b>	<b>1,094</b>

The contracts relate primarily to property leases and car leases.

### b) Capital commitments

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

	31 December 2009	31 December 2008
	HRK millions	HRK millions
Intangible assets	116	117
Property, plant and equipment	229	264
	<b>345</b>	<b>381</b>

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

110

Consolidated financial statements

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

VIPnet d.o.o. (a competitor) complained to the Competition Agency regarding Frame Agreements that T-HT and T-Mobile Hrvatska 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 Law on Protection of Market Competition. The Group had 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 Hrvatska d.o.o. have abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Agency made a decision stating that the Company and T-Mobile abused their dominant position by conclusion of these Frame Agreements. The Agency ordered modification of some provisions in several of the analyzed Frame Agreements. The Agency's request has been fulfilled. However, the Group also used its right to challenge the decision before the Administrative Court. In the decision the Agency, inter alia, stated that it would initiate proceedings before the Misdemeanour Court against the Company and T-Mobile Hrvatska d.o.o. for determining whether the misdemeanour occurred and, if yes, for assessing a penalty. Misdemeanour proceedings have been initiated. The Group submitted a first memo containing written defence. On 10 November 2009 hearing at Misdemeanour Court was held, where written statements of defence were read. The plaintiff was ordered by the Court to submit data regarding total turnover of the Company from 2002-2006 and data on market shares of the Company acquired on relevant markets. New hearing has not been scheduled yet. The penalty for violations of the Law on Protection of Market Competition could amount to up to 10% of the annual

Company turnover of the financial year preceding the year in which the infringement was committed.

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 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 progress in this case occurred. It should be pointed out that the penalty for violations of the Law on Telecommunications could amount to between 1% and 5% of the annual Company turnover of the financial year preceding the year in which the infringement was committed. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.

Cable operator B.net Hrvatska d.o.o. submitted a claim against T-HT to the Competition Agency in April and July 2008, requesting that the Competition Agency declares abuse of dominant position by T-HT on the markets of leased lines and transmission of television programs. The main arguments of B.net are related to abuse of T-HT's dominant position on the relevant markets through following forbidden practices: (i) predatory pricing, (ii) margin squeeze and (iii) leverage of market power.

T-HT argues that it does not have dominant position on the relevant markets and therefore there can be no abuse of dominant position. As an alternative argument, T-HT claims the price of MAXtv service is cost oriented, including both the cost of necessary infrastructure and the copyright cost of the content for MAXtv, as well as all other related costs.

Following the last memo of the Competition Agency, the Company had to deliver information on average total and variable costs and the structure of average total and variable costs of providing MAXtv service for each program package, as well as pricing policy of MAXtv.

B.net had previously submitted a similar complaint to the Croatian Post and Electronic Communications Agency, where T-HT successfully defended its position, which resulted in B.net's request being rejected. However, direction of the investigation and in particular the latest request

of the Competition Agency to provide detailed information on the cost of MAXtv service indicate there is an increased risk of the Competition Agency initiating formal proceedings. Therefore, T-HT has engaged external legal support for this matter.

In addition, Amis Telekom submitted a similar complaint to the Competition Agency against T-HT and Iskon claiming that T-HT and Iskon concluded an agreement on the retail price of broadband internet access service. Amis Telekom also submitted that T-HT and its subsidiary, Iskon, abuse their dominant position on the market by providing their services under predatory prices, with the aim to eliminate competition.

In its written response, T-HT challenged the jurisdiction of the Competition Agency. Also, the Company argued that there has been no prohibited agreement between T-HT and Iskon and that there can be no abuse of dominant position by T-HT and Iskon through predatory pricing, since the prices of Amis Telekom are lower than the prices T-HT or Iskon are charging for their services on the relevant market of broadband internet access. T-HT also argued that there is no division of the relevant market between T-HT and Iskon since they both provide broadband internet access on the whole territory of Republic of Croatia. As for the wholesale market, T-HT submitted that it applies equal prices to all operators, on a non-discriminatory and transparent basis, in accordance with regulatory obligations introduced by Telecommunications Act and the Electronic Communications Act.

On July 17th 2009, in both of these cases (initiated by B.net and Amis Telekom), the Competition Agency started formal proceedings.

In the formal proceedings, the Competition Agency shall undertake a detailed economic analysis, in order to determine whether an abuse exists. The results of the analysis should be delivered to the Company in the form of Statement of Objections and T-HT should have an opportunity to challenge the results.

In case that the Competition Agency finds that T-HT did abuse its dominant position on the relevant markets, the Competition Agency would submit a request to initiate the proceedings before the Misdemeanour Court, in order to determine whether an offence was committed and subsequently to decide on the amount of pecuniary fines (for the

company and responsible persons). Also, all profits T-HT gained by committing the offence would be seized.

Pecuniary penalties (fines) prescribed by the Competition Act are in the amount of up to 10% of the annual turnover of the undertaking in the year preceding the year in which the offence was committed. Additionally, the responsible person may be fined by the Misdemeanour Court in a range between HRK 50 - 200 thousand.

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

#### **b) Billing interval and Consumer Act claims**

On 29 January 2004, the 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 the 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 with the claimants being the same.

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

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

112

Consolidated financial statements

law. The claimants are residential customers of the Company (as well as consumer protection association) and are contending that the Company's monthly access charges in its consumer contracts are unjust and in breach of the Consumer law. The claimants are also, similarly as in the above described case of the State Inspectorate investigation, contending the Company's billing interval of 60 seconds.

On 12 April 2007, the Municipal Court in 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.

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 the Zagreb County Court.

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 petitioners would be invalid. The maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 100 million, including interest. The exposure could be greater than this 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. It believes that it should win on appeal. Management and T-HT's legal advisors 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. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment. Since the judgment has been made, five members of the Consumer Association filed an individual claims

before the Zagreb Municipality Court based on the same substance as adjudicated by the non-final Consumer Fraud Litigation judgment. Both T-HT and State Attorney objected. The Company believes that individual claims cannot even be discussed while the substance stands under appeal within the Consumer Fraud Litigation. The Company's lawyers remain of a firm belief that the judgment of the Zagreb Municipality Court from 12 April 2007 will not stand at the appeal-court.

## **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 a 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 of HRK 120 million plus interest.

The suit is based on the legal acts adopted by the Administration and Assembly of the City of Zagreb in the years 2006 and 2007 by which 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 the ZHZDG lawsuit who is also the representative of the Company in the ongoing proceedings in front of the Constitutional and Commercial courts, is of the firm belief that ZHZDG cannot succeed with its claim neither regards DTI ownership determination nor regards the HRK 120 million claimed payment, if the court decision will be based on the positive legislation of the RoC.

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 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 2009 and 2008. Further, DTAG and T-Mobile Germany provided technical assistance to the Group of HRK 30 million (2008: HRK 36 million).

The main transactions with related parties during 2009 and 2008 were as follows:

Related party:	Revenue	Revenue	Expenses	Expenses
	2009	2008	2009	2008
	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	23	24	8	13
HT Mostar, Bosnia and Herzegovina	43	47	75	73
T-Mobile, Germany	27	27	14	17
Others	52	64	36	57
<b>Total international settlements</b>	<b>145</b>	<b>162</b>	<b>133</b>	<b>160</b>
Deutsche Telekom AG, Germany	-	-	30	54
T-Systems Enterprise Services, Germany	-	-	14	4
Others	-	-	6	-
<b>Total intercompany services</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>58</b>
T-Systems Enterprise Services, Germany	-	-	3	-
Others	-	-	1	1
<b>Total capital expenditure</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>1</b>
<b>Total related parties</b>	<b>145</b>	<b>162</b>	<b>187</b>	<b>219</b>

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

114

Consolidated financial statements

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

	Receivables 31 December 2009 HRK millions	Receivables 31 December 2008 HRK millions	Payables 31 December 2009 HRK millions	Payables 31 December 2008 HRK millions
<b>Related party:</b>				
Deutsche Telekom AG, Germany	4	5	2	1
HT Mostar, Bosnia and Herzegovina	8	16	13	20
T-Mobile, Germany	3	3	44	41
Others	21	16	79	78
<b>Total international settlements</b>	<b>36</b>	<b>40</b>	<b>138</b>	<b>140</b>
Deutsche Telekom AG, Germany	-	-	6	9
T-Systems Enterprise Services, Germany	-	-	1	3
Others	-	-	1	1
<b>Total intercompany services</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>13</b>
<b>Total related parties</b>	<b>36</b>	<b>40</b>	<b>146</b>	<b>153</b>

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 preceding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid, in the preced-

ing month is paid while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. DTAG representatives do not receive any remuneration for the membership in the Supervision due to a respective policy of DTAG.

In 2009, Group paid a total amount of HRK 0.8 million (2008: HRK 0.6 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

## Compensation to key management personnel

In 2009 the total compensation paid to key management personnel of the Group amounted to HRK 49 million (2008: HRK 52 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 operating 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 counterparties with similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties. The Group considers that its maximum exposure is reflected by the amount of debtors (see Note 17) net of

provisions for impairment recognised at the statement of financial position date.

Additionally, the Group is exposed to risk through cash deposits in the banks. As at 31 December 2009 the Group had business transactions with eight banks (2008: eight banks). With three banks (Zagrebačka banka d.d., Splitska banka d.d. and Privredna banka Zagreb d.d.) the Group had balances accounting for the almost exclusive amount of its total cash and deposits. The 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 the Group received guarantees for deposits given from parent banks which have a 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.

Trade and other payables all amounts in HRK millions	Due in 0-30 days	Due in 31-60 days	Due in 61-90 days	Due in 91-120 days	Due in >120 days	Total
Year ended 31 December 2009	1,379	19	43	8	10	1,459
Year ended 31 December 2008	1,373	29	42	131	82	1,657

Other long-term liabilities all amounts in HRK millions	on demand	less than 3 months	3 to 12 months	1 to 3 years	3 to 5 years	> 5 years	Total
Year ended 31 December 2009	-	-	-	6	3	16	25
Year ended 31 December 2008	-	-	-	8	3	10	21

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

116

Consolidated financial statements

## c) Interest rate risk

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

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 equity HRK millions	Effect on profit before tax HRK millions
Year ended 31 December 2009			
Croatian Kuna	+100	7	26
	-100	(7)	(26)
Euro	+100	3	6
	-100	(3)	(6)
Year ended 31 December 2008			
Croatian Kuna	+100	-	46
	-100	-	(46)
Euro	+100	-	7
	-100	-	(7)

#### 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 statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

A significant amount of deposits in the banks, available for sale investments and cash equivalents 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	Effect on profit before tax HRK millions
Year ended 31 December 2009	+3%	26
	-3%	(26)
Year ended 31 December 2008	+3%	20
	-3%	(20)

#### 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 statement of financial position 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.

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 2009 and 31 December 2008 (see Note 25).

#### f) Capital management

The primary objective of the Group's capital management is to ensure that it supports 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.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

118

Consolidated financial statements

## 31 Financial instruments

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

	Carrying amount		Fair value	
	31 December 2009 HRK millions	31 December 2008 HRK millions	31 December 2009 HRK millions	31 December 2008 HRK millions
<b>Financial assets</b>				
Cash and cash equivalents	4,195	5,223	4,195	5,223
Time deposits	2	213	2	213
Available-for-sale investments, non-current	115	37	115	37
Available-for-sale investments, current	257	53	257	53
<b>Financial liabilities</b>				
Interest-bearing loans	17	17	17	17

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.

## 32 Authorization for Services and Applicable Fees

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

### a) Service authorization for the performance of telecommunication services in a fixed network

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 the EU framework, individual licenses are granted for certain modalities of usage of radio-frequency spectrum.

The new Law on Electronic Communications terminated the Concession Agreement valid until then. Additionally, it provided that a person/entity authorized under previ-

ously valid regulations can continue to provide services in accordance with the provisions of the new Law. Following HT d.d.'s prior notification on the provision of electronic communication services as of 6 February 2009 and HAKOM's Certificate on the submission of the prior notification as of 9 February 2009, HT d.d. is entitled to provide the following electronic communication services:

- Publicly available telephone service in the fixed electronic communications network,
- Lease of electronic communication network and/or lines
- Transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion),
- Value added services,
- Internet access services,
- Voice over Internet protocol services,
- Granting access and shared use of electronic communications infrastructure and associated facilities,
- Other services.

Pursuant to the Law on Electronic Communications, HAKOM and the relevant Ministry of the Sea, Transport and Infrastructure passed new by-laws on applicable fees which entered into force on 1 January 2009. These regulations prescribe the calculation and the amount of fees HT d.d. is obliged to pay for the use of address, numbers and assignment and usage of radio-frequency spectrum. These fees are paid one year in advance.

In addition to the above mentioned fees, HT d.d. is obliged to pay a fee for HAKOM's other operations in the amount of 0.32% of the total annual gross revenues realized in the previous year from the provision of electronic communication networks and services.

Furthermore, pursuant to the Law on Audio-visual Services, which entered into force in July 2007, the Company is obliged to pay 1% of the annual gross revenues realized from the provision of audio-visual services, to the state budget of the Republic of Croatia as a contribution to the funding of National Programme for Promotion of Audio-visual Works.

Additionally, in accordance with HAKOM's decision of 28 November 2005 HT d.d. is designated as an Universal electronic communication services provider for a period of five years, commencing from the adoption of the Decision.

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

Pursuant to this Agreement, T-Mobile had the right to develop and operate telecommunications services with usage of radio frequency spectrum in the global mobile network system - GSM until 18 February 2009.

Initial Concession duration as defined in this Agreement was 10 years starting on 16 September 1999. Whereas the Agency issued a certificate confirming the submission of the prior notification in accordance with the Electronic Communications Act (ECA) provisions this Agreement ceased to be valid on 18 February 2009.

Following above mentioned the T-Mobile is now entitled to provide services and perform its rights based on general authorisation and licenses for use of the radio frequencies.

On 1 January 2009 new ordinances entered into force, regulating new fees structure and amounts for the usage of frequency and numbering resources and for financing Agency's other tasks and they are applicable on the T-Mobile 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 50.000.000 HRK in the first year of the new licence, or respectively 0.5% of total annual revenue in second and every other year of the licence validity. The annual fee per one mobile radio station subscriber is 120 HRK per year. The radio spectrum usage fee which is paid to Agency amounts 241,809.00 HRK per MHz and the fee for carrying out the other tasks of the Agency is 0.32% of total annual revenue.

Licences for the use of radio frequency in GSM system issued based on the old Telecommunications Act continued to be valid until 16 September 2009 but on 3 March 2009 the Agency passed the decision on harmonization of the conditions for assignment and use of radio frequencies in the licences in accordance with the provisions of the ECA.

Before the expiration of the above-mentioned licences, in accordance with the provision of ECA, the T-Mobile submitted a request for issuing of new licence for the use of radio spectrum, and after public discussion has been performed, the Agency issued the new technological neutral licence for the use of radio spectrum for the period from 17 September 2009 to 18 October 2024.

Based on the licences for the use of radio frequencies the T-Mobile is obliged to ensure the coverage of at least 95% of the population of the Republic of Croatia and at least 75% of the territory of the Republic of Croatia.

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

120

Consolidated financial statements

## c) Service authorization 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 had the right to develop and use a public mobile telecommunications network and to operate public telecommunications services in the third generation system UMTS on the territory of the Republic of Croatia until 18 February 2009.

The initial Concession duration as defined in this Agreement was 20 years, starting from 18 October 2004. Whereas the Agency issued a certificate confirming the submission of the prior notification in accordance with the ECA provisions this Agreement ceased to be valid on 18 February 2009.

Following that T-Mobile is now entitled to provide services and perform its rights based on general authorisation and license for use of the radio frequencies spectrum Following the initial concession fee paid in the amount of HRK 132 million, T-Mobile paid an annual concession fee of 1% of total revenues realised in the UMTS mobile network in the period between 2005 and 2007. In December 2008 the Agency issued the invoice for the fifth year of this Agreement's validity, decreased in accordance with the amendment to the relevant bylaw, thus T-Mobile paid the amount of 0.5% of total annual revenue realised in the UMTS network. T-Mobile also had to pay until end of year 2008 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 respect to the GSM concession by which the new fees structure and amounts were prescribed, applies in the same manner to UMTS network usage. Licences for the use of radio frequency in the UMTS system issued based on the old Telecommunications Act continued to be valid until 18 October 2024, but on 3 March 2009 the Agency passed the decision on harmonization of the conditions for assignment and use of radio frequencies defined in the licences in accordance with the provisions of the ECA.

Based on the licence for the use of radio frequencies T-Mobile is obliged to ensure coverage of at least 50% of the population of the Republic of Croatia in the period of 5 years from the grant of the concession.

## 33 Share-based payment transactions

Various mid-term incentive plans (MTIPs) exist at T-HT's parent Group Deutsche Telekom AG (DTAG) and on T-HT Group level to ensure competitive total compensation for members of the Management Board, senior executives and other beneficiaries. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders. 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 is generally 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 Management Board will establish whether the target has been achieved for DTAG and all participating companies as a whole and will announce this decision. The aforementioned targets have therefore been applied to all plans issued to date by DTAG.

The MTIP 2004, 2005 and 2006 expired on 31 December 2006, 31 December 2007 and 31 December 2008 respectively. While the performance targets were not met either by the MTIP 2004 or MTIP 2005 and accordingly no payments were made, for MTIP 2006 HRK 0.2 million was paid out to the Group's participants. As of the reporting date, the only DTAG MTIP in which the Group's employees are still participating is MTIP 2007 which has expired on 31 December 2009. Until the reporting date, the Group has not received any information by DTAG on the final decision with respect to the MTIP of 2007. However, respective amounts are expected to be immaterial for the Group.

Additionally, the Group is remunerating its key employees with its own mid-term incentive plan (MTIP 2008, MTIP 2009) independent from the aforementioned plans issued by DTAG.

The duration of MTIP 2008 covers the period from 1 January 2008 to 31 December 2010 while MTIP 2009 covers the period from 1 January 2009 to 31 December 2011. 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 of the Company shall determine whether each of the targets has been achieved. Based on the findings of the Supervisory Board, the Management Board shall determine and announce the level of target achievement.

For MTIP 2008, both targets are equally weighted and cannot be changed during the MTIP duration. While the first target is based on a fixed EBITDA multiple, the other target is based on the comparison of the share price movement compared to the complex return index. MTIP 2009 also has two targets which are equally weighted and cannot be changed during the MTIP duration. In contrast to MTIP 2008, both targets are linked to the development of the Company's share price. One target is based on the increase of the share price by a certain percentage, the second target is related to the share price movement compared to the complex return index.

If only one target of the Group's MTIPs is reached, the participants receive 50 percent of the targeted incentive. The incentives themselves consist of 15 percent, 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2008 for MTIP 2008 and 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2009 for MTIP 2009, 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.

For the reporting period, all gains and expenses out of changes of the related provisions for all MTIP plans recognised for employee services received during the year are shown in the following table:

	2009 HRK millions	2008 HRK millions
Expenses for providing for cash-settled share-based payment transactions	5	-
Gains arising from cancellation of provision for cash-settled share-based payment transactions	1	3

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2009

122

Consolidated financial statements

## 34 Auditor's fees

The auditor of the Group's financial statements, Ernst & Young d.o.o., has rendered services of HRK 6 million in 2009 (2008: HRK 4 million). Services rendered in 2009 and 2008 relate to audits and reviews of the financial statements.

## 35 Events after reporting period

On 29 October 2009 a Merger Agreement was signed by HT d.d. and T-Mobile and upon the decision of the Assembly of the transferor company by which the merger was approved, and the merger was entered into the court register of the Commercial Court in Zagreb on 31 December 2009.

By entry of the merger into the court register, the transferee company, HT d.d. became the universal legal successor of the transferor company and thereby entered into all legal relationships of the transferor company, whereby T-Mobile ceased to exist with the expiry of 31 December 2009 as the day of the entry in the court register of the merger i.e. did not exist on 1 January 2010.



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

124

ADSL	III, 9, 32, 33, 42, 43, 50, 64, 65, 88
ASSET	II, 24, 38, 39, 62, 63, 65, 66, 68, 70, 72, 73, 75, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 95, 96, 97, 98, 99, 101, 102, 108, 109, 117, 118
ATM	11, 51, 88
BALANCE SHEET	II, 63
BROADBAND	IV, 9, 10, 20, 21, 27, 32, 33, 35, 37, 43, 44, 50, 63, 64, 65, 111
CAPITAL	II, 9, 10, 13, 14, 21, 28, 38, 39, 63, 65, 66, 74, 76, 85, 90, 91, 98, 103, 108, 109, 113, 117
COMPANY	IV, 8, 11, 13, 14, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 34, 35, 39, 51, 52, 56, 58, 59, 69, 72, 77, 84, 95, 98, 99, 101, 108, 110, 111, 112, 114, 119, 121, 122, 123
CONCESSION	34, 71, 85, 96, 112, 118, 119, 120
CONSOLIDATED	5, 22, 25, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122
DATA	III, IV, 11, 22, 32, 33, 34, 35, 43, 44, 48, 49, 50, 51, 64, 83, 85, 88, 89, 90, 91, 95, 97, 98, 107, 110
DEPRECIATION	62, 63, 64, 65, 66, 72, 75, 85, 90, 91, 92, 94, 97
DEUTSCHE TELEKOM	11, 14, 20, 26, 27, 59, 77, 99, 113, 114, 120
DIAL-UP	III, 43, 44, 64
DIVIDEND	9, 13, 14, 25, 63, 75, 76, 84, 88, 94, 101, 108, 117, 120
EARNINGS	14, 24, 63, 72, 74, 76, 80, 95, 108, 117
EMPLOYEES	II, 10, 11, 19, 26, 28, 38, 39, 52, 53, 56, 57, 62, 77, 93, 106, 109, 114, 121
FGSM	III, 42
FINANCING	63, 75, 85, 119
FRAME RELAY	11, 50, 88
GROUP	II, IV, 5, 8, 9, 10, 11, 17, 22, 25, 27, 31, 32, 33, 34, 36, 37, 38, 39, 42, 43, 51, 52, 53, 56, 57, 58, 59, 61, 62, 63, 64, 68, 69, 70, 71, 72, 74, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 95, 97, 98, 99, 100, 101, 106, 107, 108, 109, 110, 111, 113, 114, 115, 116, 117, 118, 120, 121, 123
GSM	11, 17, 36, 97, 119, 120

HT MOSTAR	113, 114
HUMAN RESOURCES	5, 17, 26, 27, 31, 52
INCOME	5, 14, 24, 32, 56, 62, 63, 65, 67, 69, 72, 73, 74, 75, 76, 78, 80, 84, 86, 87, 88, 89, 90, 91, 93, 94, 95, 101, 106, 107, 117
INTERNET	III, IV, 9, 11, 32, 33, 37, 38, 42, 43, 44, 48, 49, 50, 58, 62, 64, 77, 88, 89, 90, 91, 111, 118
INVESTMENT	8, 10, 12, 21, 38, 39, 50, 57, 63, 65, 72, 73, 75, 77, 80, 82, 83, 84, 85, 86, 88, 90, 91, 97, 100, 101, 102, 103, 115, 116, 117, 118, 123
IPO	11
ISDN	III, 42
ISKON	IV, 11, 32, 34, 35, 43, 64, 77, 111
LICENCES	85, 96, 97, 119, 120
MANAGEMENT	5, 7, 8, 9, 10, 14, 16, 17, 18, 20, 21, 22, 23, 24, 25, 26, 27, 28, 32, 37, 38, 39, 50, 51, 52, 53, 58, 59, 68, 69, 70, 71, 77, 78, 83, 84, 85, 88, 89, 97, 99, 103, 108, 110, 111, 112, 114, 115, 117, 120, 121
MAXadsl	33, 58
MAXtv	9, 10, 32, 33, 37, 38, 43, 50, 58, 64, 110, 111
NETWORKS	III, 9, 10, 11, 33, 34, 35, 36, 38, 44, 118, 119
ONLINE	88, 107
OPERATOR	III, 13, 32, 33, 34, 35, 39, 43, 44, 50, 58, 59, 64, 87, 110, 111, 112
ORGANIZATION	5, 8, 10, 21, 22, 31, 32, 38, 39, 49, 52, 53, 56
POST PAID	IV, 87
POTS	III, 42
PRE PAID	IV, 87
REDUNDANCY	62, 63, 72, 74, 89, 93
RESTRUCTURING	83
REVENUE	II, III, IV, 5, 9, 22, 24, 32, 33, 36, 42, 43, 44, 51, 61, 62, 63, 64, 65, 66, 72, 79, 80, 81, 83, 84, 85, 87, 88, 89, 90, 91, 92, 94, 95, 101, 102, 113, 114, 119, 120
ROAMING	87

SERVICES	III, IV, 9, 10, 11, 12, 20, 21, 25, 26, 32, 33, 34, 35, 36, 37, 38, 39, 42, 43, 44, 48, 49, 50, 51, 56, 57, 59, 62, 64, 65, 66, 71, 72, 80, 81, 85, 87, 88, 89, 90, 91, 92, 93, 95, 100, 101, 107, 111, 113, 114, 118, 119, 120, 121, 122
SHARES	IV, 8, 11, 12, 13, 14, 15, 20, 21, 25, 27, 57, 82, 95, 99, 108, 110, 117, 120
SIMPA	48, 49
SMS	III, 9, 33, 35, 36, 44
STRATEGY	5, 10, 17, 21, 26, 31, 37, 38, 50, 52, 56, 64
SUPERVISORY BOARD	5, 7, 8, 10, 14, 17, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 77, 114, 120, 121
TARIFF	21, 35, 38, 42, 48, 49, 87, 111, 112
TAX	9, 10, 12, 13, 18, 32, 39, 65, 72, 73, 74, 75, 84, 85, 86, 87, 90, 91, 93, 94, 95, 103, 106, 116, 117
T-COM	III, IV, 5, 8, 9, 11, 17, 20, 21, 27, 31, 32, 38, 39, 41, 42, 43, 44, 49, 51, 53, 58, 61, 62, 63, 64, 65, 88, 89, 90, 91, 103, 114
T-HRVATSKI TELEKOM	11, 17
T-HT GROUP	II, IV, 5, 11, 22, 25, 32, 33, 37, 51, 56, 61, 62, 63, 120
T-MOBILE	IV, 5, 8, 9, 10, 11, 14, 16, 17, 21, 22, 24, 27, 31, 32, 33, 34, 35, 36, 38, 39, 44, 47, 48, 49, 50, 51, 53, 57, 58, 59, 61, 62, 63, 65, 66, 70, 87, 89, 90, 91, 110, 111, 113, 114, 119, 120, 122
tportal	9, 37, 43, 44, 58
UMTS	11, 50, 85, 97, 120
VPN	III, 44, 64, 88



HT-Hrvatske telekomunikacije d.d.  
Savska cesta 32  
10000 Zagreb, Croatia  
[www.t.ht.hr](http://www.t.ht.hr)