Annual Report 2010

Hrvatski Telekom

FINANCIAL HIGHLIGHTS - IFRS HT accounting policies

T-HT GROUP

in HRK million	Jan - Dec 2010	Jan - Dec 2009	% of change A10/A09
Revenue	8,375	8,517	-1.7%
EBITDA before exceptional items (1)	3,694	3,859	-4.3%
EBITDA	3,662	3,695	-0.9%
EBIT (Operating profit)	2,247	2,294	-2.0%
Net profit after minority interest	1,831	2,023	-9.5%
EBITDA margin before exceptional items	44.1%	45.3%	-1.2 p.p.
EBIT margin	26.8%	26.9%	-0.1 p.p.
Net profit margin	21.9%	23.8%	-1.9 p.p.
CAPEX	1,153	1,553	-25.8%
CAPEX / Revenue ratio	13.8%	18.2%	-4.5 p.p.
	At 31 Dec 2010	At 31 Dec 2009	% of change A10/A09
ROE	15.9%	16.6%	-0.7 p.p.
ROCE	13.9%	13.9%	0.0 p.p.
Number of employees (Full-time equivalent)	6,322	6,044	4.6%

(1) Exceptional items in 2010 totalled HRK 31.6 million, of which HRK 30.6 million related to redundancy provisions and HRK 1.0 million related to consultancy costs. Exceptional items in 2009 totalled HRK 163 million, of which HRK 152 million related to redundancy provisions and HRK 11 million related to reorganisation costs.

T-HT GROUP

Balance Sheet

in HRK million	At 31 Dec 2010	At 31 Dec 2009	% of change A10/A09
Total non current assets	8,008	8,175	-2.0%
Total current assets	5,577	6,297	-11.4%
TOTAL ASSETS	13,585	14,472	-6.1%
Total issued capital and reserves	11,054	12,012	-8.0%
Total non current liabilities	410	556	-26.3%
Total current liabilities	2,121	1,904	11.4%
TOTAL EQUITY AND LIABILITIES	13,585	14,472	-6.1%

Operating Statistics

T-COM SEGMENT

Key operational data	Dec 2010	Dec 2009	% of change A10/A09
Fixed telephony			
Total POTS and FGSM mainlines	1,349,860	1,390,568	-2.9%
Total ISDN mainlines	80,953	93,020	-13.0%
Total (POTS+FGSM+ISDN)	**1,430,813**	**1,483,588**	**-3.6%**
Payphones	6,766	8,034	-15.8%
Total mainlines (POTS+FGSM+ISDN+Payphones)	**1,437,579**	**1,491,622**	**-3.6%**
Total Traffic (thousands of minutes) Jan-Dec	**3,176,743**	**3,464,391**	**-8.3%**
To national fixed network	2,698,497	2,926,481	-7.8%
To national mobile network	272,521	310,937	-12.4%
To VAS	61,157	65,346	-6.4%
To international networks	108,070	119,445	-9.5%
Remaining traffic (1)	36,498	42,182	-13.5%
Average monthly voice revenue per voice access (ARPA) (HRK)	131	138	-5.2%
Internet services			
Internet access customers			
Number of Internet subscribers	647,322	596,978	8.4%
Dial-up users	907,964	766,429	18.5%
Active dial - up users	18,094	41,983	-56.9%
ADSL mainlines	629,228	554,995	13.4%
IPTV customers	297,496	235,980	26.1%
Fixed-line customers	1,261	1,152	9.5%
VPN connection points	3,845	3,528	9.0%
Average monthly ADSL revenue per ADSL access (ARPA) (HRK)	127	125	1.7%
Data services			
Total Data lines and connection points	**5,873**	**6,153**	**-4.6%**
Wholesale services			
Customers			
CPS	220,963	227,879	-3.0%
NP (users/number)	416,112	348,210	19.5%
ULL (2)	132,821	123,054	7.9%

(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.
(2) due to change in methodology in reporting of ULL numbers (active vs. realized) as from 2nd quarter 2010 figures for ULL are not comparable. December 2010 is showing number of active lines while December 2009 is showing number of realized lines.

T-MOBILE SEGMENT

Key operational data	Dec 2010	Dec 2009	% of change A10/A09
Subscribers			
No. of pre-paid subscribers	1,898,170	1,938,867	-2.1%
No. of post-paid subscribers	1,003,052	919,991	9.0%
Total T-Mobile subscribers	2,901,222	2,858,858	1.5%
% of post-paid subscribers	34.6	32.2	2.4 p.p.
Minutes of use (MOU)			
MOU per average subscriber	115	112	2.3%
Average revenue per user (ARPU) (HRK)			
Blended ARPU (monthly average for the period in HRK) (4)	90.6	98.0	-7.6%
Blended non-voice ARPU (monthly average for the period in HRK)	21.0	23.1	-9.2%
SAC per gross add	**159.9**	**198.7**	**-19.6%**
Churn rate (%)			
Churn rate total	2.3	1.9	0.4 p.p.
Churn rate post-paid	1.0	0.8	0.2 p.p.
Churn rate pre-paid	3.0	2.3	0.6 p.p.
Penetration (2)	**143.9**	**136.5**	**7.5 p.p.**
Market share of subscribers (%) (2)	**45.5**	**47.2**	**-1.7 p.p.**
Market share by revenue (%) (1)(3)	**47.0**	**48.8**	**-1.8 p.p.**

(1) Market share by net revenue
(2) Source: published VIPnet's and Tele2's quarterly report for 4Q 2009. Number of subscribers for VIPnet and Tele2 for 4Q 2010 are internally estimated.
(3) Source: Telekom Austria Quarterly report for 4Q 2009. Tele2 Quarterly report for 4Q 2009. VIPnet's and TELE 2 total revenue for 4Q 2010 are internally estimated. Market shares are based on unconsolidated revenue for T-Mobile (i.e. not net of T-Com revenue). Different treatment of 6% contribution fee for other operators - effect on revenue for T-Mobile, effect on expenses for VIP and Tele 2.
(4) 6% contribution fee on mobile revenues is included in blended ARPU for 2010.

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 - Hrvatski Telekom d.d., together with its subsidiaries.

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

Following the merger of T-Mobile d.o.o. with HT - Hrvatske telekomunikacije d.d. (from 21 May 2010. Hrvatski Telekom 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., which ceased to exist as of 1 January 2010.

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

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

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I. Introduction

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Letter to Shareholders

Dear Shareholders,

Despite a tough economic environment in 2010, Hrvatski Telekom achieved solid business results and maintained its leadership of the Croatian telecommunications market. The year was characterized by a slowdown in economic activity, rising unemployment, lower personal spending, a drop in GDP, and reduced levels of investment. In the face of these difficult economic circumstances, Hrvatski Telekom maintained its position as a one of the leading enterprises in Croatia and continued to manage a stable and reliable business focused on achieving its key goals.

We were able to alleviate the impact of the recession through tight cost control, retention of existing customers and new customer acquisition, and investment in the majority of our business divisions. With the merger of T-Mobile and the successful restructuring of the Group, we created a more customer-focused organisation. At the same time, the acquisition of Combis strengthened the position of Hrvatski Telekom as one of the key providers of IT services to the Croatian business sector.

The impact of the recession, extraordinary taxes, and intensified competition resulted in a 1.7% decline in revenue to HRK 8,375 million. Revenue from mobile operations fell 7% for HRK 278 million, largely due to a 6% tax on mobile services, increased competition, a mature market, decreased consumption, and lower wholesale origination and termination fees. Fixed and wholesale revenue continued to decline, falling 8.6% and 8.2%, respectively. Internet services, however, performed extremely well, posting 19.5% revenue growth to HRK 1,368 million. These figures are further confirmation of the quality and attractiveness of our broadband and related services, such as MAXtv. Combis made a HRK 232 million contribution to 2010 revenue.

Our continued focus on cost control along with savings arising from Group restructuring enabled us to reduce operating costs. EBITDA before exceptional items was down 4.3%, however, as revenue declined to a greater extent than we were able to reduce costs.

In 2010, T-HT shares were the most traded shares on the Zagreb Stock Market. By the end of the year, our share price was up 5.2% on the previous year at HRK 288.71. In light of the Group's performance and its cash reserves, the Management Board and the Supervisory Board proposed to the General Assembly of Hrvatski Telekom d.d. a dividend of HRK 22.76 per share.

In light of the currently unfavourable regulatory framework, we postponed a significant portion of planned investments in fiber infrastructure while we await a more conducive environment for continued investment. Accordingly, capital expenditures decreased by 25.8% to HRK 1,153 million. This reduction was also impacted by the slightly slower introduction of fiber infrastructure caused by delays in obtaining local permits.

As a successful and responsible company, we remained focused on sustainable business operations and responsibility towards our employees, customers, suppliers, and shareholders, as well as towards environment and the society as a whole, in which we continuously invest. As part of our strategy of responsible business operations of the Group, we remained focused on three key goals: superior ways of communication and connected life and work, integration in the society of information and knowledge, and environmental protection and responsible use of resources, as well as reduction of greenhouse gas emissions. We endeavour to achieve these goals in the day-to-day running of our operations by facilitating open and transparent dialogue with the community in which we work and operate.

In light of the current economic circumstances and in the face of a slow recovery, we acknowledge that 2011 will be no less challenging. However, we will steadfastly pursue our key strategic objectives of growth, customer focus, and improved quality and efficiency in order to retain our leading market position.

I would like to express my sincere gratitude to all our shareholders for the trust placed in us. I would particularly like to thank the employees of the Group for their diligent efforts and loyalty to the company, and to my colleagues on the Management Board and Supervisory Board for their support throughout 2010.

Ivica Mudrinić
President of the Management Board

Corporate Profile

At a Glance

The T-HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services. As of 1 January 2010, the Group conducts its business through its Residential and Business units.

The basic activities of Hrvatski Telekom 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, Metro-Ethernet, IP/MPLS, ATM), operating with GSM and UMTS mobile telephone networks.

History and Incorporation

Hrvatski Telekom 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).

In 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile 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.

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

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

In October 2009, an agreement was signed by which T-Mobile Croatia was merged into HT d.d. The merger came into effect on 1 January 2010, after which time the Group was organised into Residential and Business units. In addition the Company's registered name was officially changed from HT – Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d. on 21 May 2010.

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

In December 2010, according to records held at the Central Depository and Clearing Company, the Republic of Croatia transferred 2,859,148 shares of Hrvatski Telekom d.d., equal to 3.5% of the entire share capital of the Company, to the owner account of the Pensioners' Fund. Following this transfer, the Republic of Croatia no longer holds shares of Hrvatski Telekom d.d.

Economic environment and share price performance

Croatia faced another difficult year in 2010 with economic conditions that depressed the capital market. The recession lingered in the first half of the year with signs of improvement emerging only when third-quarter GDP rose to just 0.2% year-on-year, highlighting Croatia's predicament as a "late recovery" economy.

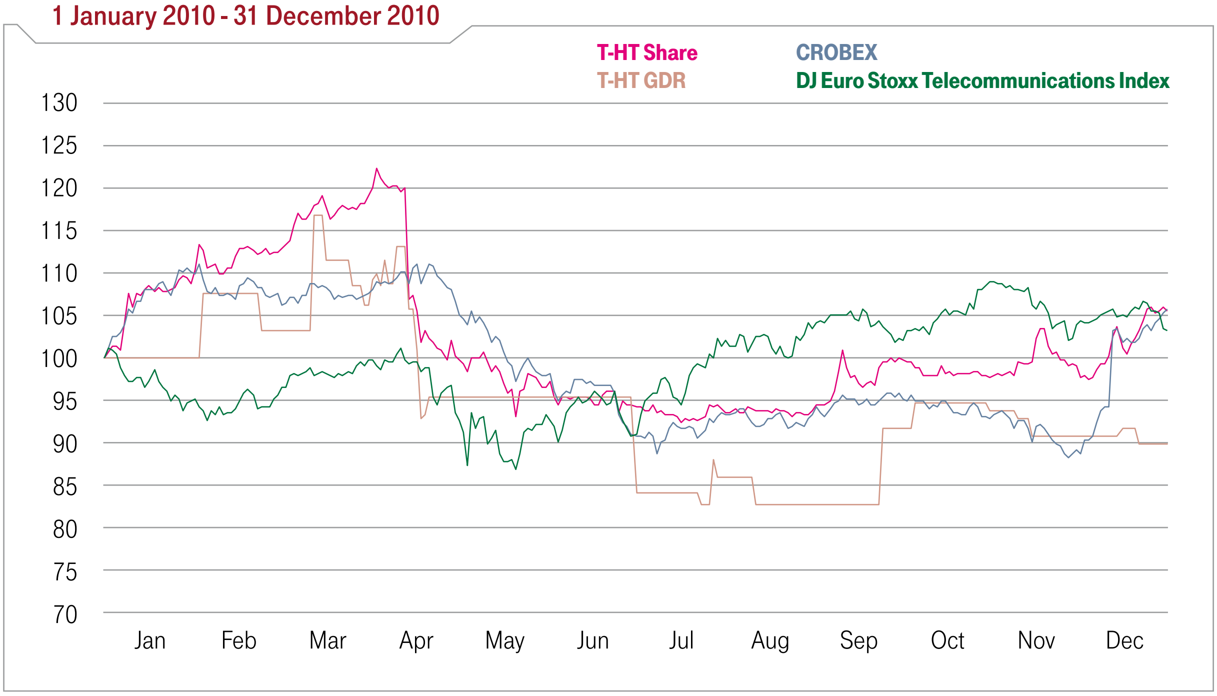
The nation's economic challenges remain. Estimates of full-year GDP forecast a fall of 1.5% for 2010 and project growth of just 1.5% for 2011. Fiscal uncertainty, high unemployment, falling disposable income, a slowdown in payment collections, regulatory and administrative burdens all continue to drag the Croatian economy, while serious and necessary reforms are stalling ahead of the general election expected for late 2011.

Against this backdrop of deep recession and slow recovery, the Croatian capital markets continued to suffer and many large foreign investors stayed away. Hopefully confidence in the Croatian economy will return as growth picks up and many of these problems recede. Furthermore, the Government's plan to complete EU Accession talks by June 2011, coupled with its strong commitment to tackle corruption, will send a clear signal that the Croatian market is a good place to invest.

Trading volumes fell again in 2010, by 22.3%, and although the benchmark CROBEX index put on 5.3% by the end of the year, gains made by April were wiped out by later losses. As is evident from the chart below, much of the rise can be attributed to a recovery in December, driven in part by heavy trading in shares of INA, the Croatian refinery company, after the Hungarian company Mol bid in the market to increase its stake. Closing the year at 2,111, its 5.3% gain was lower than the 16.4% increase it achieved in 2009. Despite its recovery in 2009 and 2010, the CROBEX has nonetheless lost 60% of its value in the last three years.

Being a significant component of CROBEX, T-HT shares almost tracked the index, closing the year 5.2% up at HRK 288.71. A rising share price in the first few months reflected trading on the expectation and subsequent announcement of a generous dividend.

T-HT Share and GDR as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index
1 January 2010 - 31 December 2010



Following the ex-dividend in April, trading remained relatively stable until the end of the year, when T-HT shares rose along with the market.

By the end of 2010, T-HT shares had 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) for the second year in a row, beating the index by 2p.p.

In October, at the 20th annual conference of the Zagreb Stock Exchange, T-HT received the award for Best Investor Relations in Croatia, 2010 , from the business newspaper Poslovni dnevnik.

T-HT Shares ended the year at HRK 288.71, representing an increase of 5.2% on the HRK 274.50 at which they closed in 2009. The year's highest closing price was HRK 332.84, the lowest being HRK 253.10 (source: Zagreb Stock Exchange).

Although turnover was around 15% lower than in 2009, T-HT was once again the most traded share on the Zagreb Stock Exchange, with HRK 1.5 billion of turnover, accounting for 25.8% of the ZSE's total trade by value of shares in 2010 (2009: HRK 1.8 billion, 23.7%).

As at 31 December 2010, T-HT was the second largest company on ZSE, with a market capitalisation HRK 23.6 billion (EUR: 3.2 billion) representing 16.8% of the total market capitalization by value (source: Zagreb Stock Exchange). INA became the largest company on the ZSE after rising more than 90% in the year to achieve a market capitalisation of nearly HRK 32 billion.

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 Depositary Receipts (GDRs), each representing one T-HT Share, are traded 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 2009 financial year

In April 2010, the General Assembly of the Company approved a dividend payment to shareholders in the amount of HRK 2.788 billion (HRK 34.05 per share), representing a dividend payout ratio of 138%. The dividend was paid in May 2010.

At the end of 2010, this represented a dividend yield of 11.8% on T-HT's closing price of HRK 288.71. Using the average closing share price over 2010, HRK 279.77, the dividend yield was 12.2%.

Dividend proposal for the 2010 financial year

The Management Board and Supervisory Board of Hrvatski Telekom d.d. have proposed a dividend distribution to shareholders in the amount of HRK 1,863,783,056.60 and the amount of HRK 249,160.49 to allocate to retained earnings.

The dividend of HRK 22.76 per share will be paid to shareholders registered at the Central Clearing Depository Association (SKDD) on the day of the General Assembly, planned for 4 May 2011. The dividend will be paid on 23 May 2011.

In 2010 the Government abolished the special tax on salaries, pensions and other receipts it imposed in August 2009. As a consequence, this year's dividends are not taxable.

Shareholder Structure as at 31 December 2010

Deutsche Telekom	51.0%
Private and institutional investors	38.5%
War Veterans' Fund	7.0%
Pensioners' Fund	3.5%

Total number of shares issued: 81,888,535

Deutsche Telekom remains the majority shareholder with a 51% holding, while the Croatian War Veterans' Fund continues to own 7%. In November 2010 the Republic of Croatia transferred its 3.5% holding to the Pensioners' Fund.

The remaining 38.5% is in institutional and private hands, with more than 230,000 Croatian investors holding T-HT shares representing 23.9% of the total share capital of the Company.

Financial Calendar

	Date
Release of full year 2010 results	February 14, 2011
Release of first quarter 2011 results	April 28, 2011
The General Assembly of the Company	May 4, 2011
Release of first half 2011 results	July 29, 2011
Release of first nine months 2011 results	October 28, 2011

The above-mentioned dates are subject to change

General information on Shares and GDRs

Shares:	ISIN: HRHT00RA0005
Regulation S GDRs:	ISIN: US44330H2004
Rule 144A GDRs:	ISIN: US44330H1014
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

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Management Board

Johan H.M. Busé, Jürgen P. Czapran, Branka Skaramuča, Irena Jolić Šimović, Božidar Poldrugač, Ivica Mudrinić

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 Hrvatski Telekom.

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 became a Member of the HT Management Board and Chief Financial Officer. In May 2010 he also became President of the Supervisory Board of Combis.

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 Hrvatski Telekom in 1998, she worked at Croatian Radio and Television (HRT), the Ministry of the Sea, Transport and Communications and the Ministry of Immigration. She was Executive Director for Corporate Strategy and Business Development until August 2006, when she was appointed Member of T-HT's Management Board and Chief Human Resources Officer. Irena Jolić Šimović was Chief Operating Officer T-Com from October 2008 until December 2009. Following the Group's restructuring in January 2010, she became Chief Operating Officer Business with responsibility for Sales, Marketing, Customer Service, Wholesale and ICT Business Solutions.
In March 2010, Irena Jolić Šimović was honoured as one of the World Economic Forum's Young Global Leaders 2010, a unique community of exceptional young leaders who share a commitment to shaping the global future.

Johan H.M. Busé

Member of the Management Board
Chief Operating Officer Residential

Johan Busé was born in the Netherlands in 1969 and grew up in Belgium. After completing the study of economics, he started his career in retail marketing at British Petroleum in Belgium and the Netherlands, joining T-Mobile in 2000, where he took the position of the Head of Business Development. After that he led several marketing departments of T-Mobile in the Netherlands, Germany, and Croatia. From 2006 to 2008 he held the position of the Member of the Management Board and Chief Marketing Officer of T-Mobile Croatia. He then joined the Indonesian mobile operator AXIS as Chief Marketing Officer, helping it to become the fastest growing 3G operator in Indonesia. On 1 April 2010 Mr. Busé returned to HT when he was appointed Member of the Management Board and Chief Operating Officer Residential, responsible for sales, marketing, and customer services.

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 began her career with the pharmaceutical company PLIVA in 1985, where she worked in Human resources.
In 1989 she was appointed Head of Marketing Communications in part of its FMCG portfolio, being promoted to the position of HR Director for Croatia in 1993 and then becoming Global HR Director until February 2002.
She joined Hrvatski Telekom in 2002 as a Member of the Management Board and Chief Human Resources Officer, becoming a Management Board member and Chief Human Resources Officer of T-Mobile Hrvatska in March 2004.
In September 2008 the Supervisory Board of Hrvatski Telekom appointed Branka Skaramuča a Member of the Management Board and Chief Human Resources Officer of the T-HT Group.

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 and 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 a Member of the Management Board and Director of 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 T-Mobile Croatia was launched. In March 2007, he was appointed Member of the Management Board and Chief Technical and Chief Information Officer for the T-HT Group.

Compensation to the Management Board members in 2010:

In 2010, Ivica Mudrinić, President of the Management Board, was paid a fixed salary contracted in annual gross amount of HRK 2.003.239, in average net monthly instalments of HRK 83.337. Variable part, in accordance with 2009 goals achievement, amounted to HRK 666.226 net. Payment according to MTIP 2007 amounted to HRK 174.402 net. Income in kind amounted to HRK 186.181 for company car usage.

Irena Jolić Šimović, member of the Management Board, was in 2010 paid a fixed salary contracted in gross amount of HRK 1.520.870, in average net monthly instalments of HRK 62.139. Variable part, in accordance with 2009 goals achievement and pro rata payment due to maternity leave, amounted to HRK 92.270 net. Payment according to MTIP 2007 amounted to HRK 56.865 net. The income in kind amounted to HRK 154.190 for company car usage.

Johan Buse, member of the Management Board from April 1st 2010, was paid a fixed and variable salary contracted in annual gross amount of HRK 1.509.363. The amount of income in kind was HRK 300.804 for rental, insurance and company car usage.

Božidar Poldrugač, member of the Management Board, was in 2010 paid a fixed salary contracted in annual gross amount of HRK 1.391.269 in average net monthly instalments of HRK 59.985.Variable part, in accordance with 2009 goals achievement, amounted to HRK 225.784 net. Payment according to MTIP 2007 amounted to HRK 71.424 net. The income in kind amounted to HRK 172.697 for company car usage.

Jürgen P. Czapran, member of the Management Board, was in 2010 paid a fixed and variable salary contracted in annual gross amount of HRK 3.997.042. The amount of income in kind was HRK 319.842 for rental, insurance and company car usage.

Branka Skaramuča, member of the Management Board, was in 2010 paid a fixed salary contracted in annual gross amount of HRK 1.351.554, in average net monthly instalments of HRK 55.353. Variable part, in accordance with 2009 goals achievement, amounted to HRK 215.704 net. Payment according to MTIP 2007 amounted to HRK 96.555 net. The benefit in kind amounted to HRK 150.281 for company car usage.

Supervisory Board

Guido Kerkhoff
President of the Supervisory Board

dr. sc. Ivica Mišetić
Deputy president

dr. Steffen Roehn
Member

Kathryn Walt Hall
Member

Fridbert Gerlach
Member until 21 April 2010

dr. Lutz Schade
Member from 21 April 2010

dr. Ralph Rentschler
Member

Siegfried Pleiner
Member until 21 April 2010

Andreas Hesse
Member from 21 April 2010

dr. Slavko Leban
Member

Josip Pupić
Member until 31 December 2010

Juko Cikojević
Member from 1 January 2011

As specified by the Company, the chairman of the Supervisory Board receives remuneration that amounts 1.5 of the average net salary of the employees in the Company paid in the preceding month. To the deputy chairman the amount of 1.25 of the average net salary of the employees in the Company paid in the preceding month is paid, while any other member receives the amount of 1 average net salary of the employees in the Company paid in the preceding month. The member of the Supervisory Board, who is at the same time the chairman of the Audit Committee of the Supervisory Board, receives the amount of 1.5 average monthly net salaries of the employees in the company paid in the preceding month. The member of the Supervisory Board, who is at the same time the member of the Audit Committee of the Supervisory Board, receives the amount of 1.25 of the average monthly net salary of the employees in the company paid in the preceding month. To a member of the Supervisory Board who is at the same time the member of the Compensation and Nomination Committee of the Supervisory Board, the amount of 1.25 of the average monthly net salary of the employees in the company paid in the preceding month, is paid. DTAG representatives do not receive any remuneration for the membership in the Supervision, due to the respective policy of DTAG. No loans were granted to the members of the Supervisory Board.

Compensation to the Supervisory Board members in 2010 is as follows:

	Period in which compensation is paid		Gross
	From	To	HRK
Kathryn Hall	1 January 2010	31 December 2010	173,987.52
Slavko Leban	1 January 2010	31 December 2010	122,556.14
Ivica Mišetić	1 January 2010	31 December 2010	191,493.99
Josip Pupić	1 January 2010	31 December 2010	153,195.19

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

Pursuant to Article 263, paragraph 3, and Article 300.c of the Companies Act and Article 31 of the Articles of Association of Hrvatski Telekom d.d., the Supervisory Board of Hrvatski Telekom d.d. Zagreb, 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, Dr. Lutz Schade, Dr. Ralph Rentschler, Mr. Andreas Hesse, Ms. Kathryn Walt Hall, Mr. Slavko Leban, M.D and Mr. Juko Cikojević, 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 2010 and on the results of the examination of the business and financial reports for the business year 2010

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 2010,
- the results of the examination of the annual financial statements as of 31 December 2010 together with auditor's report as well as of the proposal for the utilization of the profit,
- the results of the examination of the Management Board's report on the status of business operations for the business year 2010,
- 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 has transferred 3.5% of its shares to the owner account of the Pensioners' Fund in November 2010. Following this transfer, the Republic of Croatia no longer holds shares of Hrvatski Telekom d.d. 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 nominated by the Republic of Croatia two independent members and one member appointed by the Workers' Council of HT d.d.

Supervisory Board

During 2010, the composition of the Supervisory Board of the Company changed as follows:

Members of the Supervisory Board, Mr. Fridbert Gerlach and Mr. Siegfried Pleiner, have resigned from their positions in the Supervisory Board with effect from 21 April 2010.

Dr. Lutz Schade and Mr. Andreas Hesse were elected as Members of the Supervisory Board as of 21 April 2010.

Mr. Josip Pupić has resigned as Workers' Representative on the Supervisory Board with effect from 31 December 2010. His successor, appointed by the Workers' Council, from 1 January 2011 is Mr. Juko Cikojević.

Audit Committee

On the day of issuance of this report: Mr. Kay Nolden, Chairman, Mr. Ivica Mišetić, Ph.D., Member, and Mr. Franco Musone Crispino, Member, are the members of this Committee.

Mr. Siegfried Pleiner resigned from his position of Member of the Audit Committee with effect from 21 April 2010, and his successor appointed by the Supervisory Board is Mr. Franco Musone Crispino with effect from 30 April 2010.

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 six (6) members.

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

- 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 had been temporarily added to the function of the President of the Management Board and CEO.

Close to the end of 2010, the Supervisory Board, with respect to the mandates of Management Board Members that are to expire by end of 2010 and in the beginning of 2011, decided the following:

- Mr. Ivica Mudrinić was reappointed as President of the Management Board (CEO) for another term of office in the duration of three years, with commencement as of 1 January 2011,

- Mr. Božidar Poldrugač was reappointed as Member of the Management Board and Chief Technical and Chief Information officer (CTO/CIO) for another term of office in the duration of three years, with commencement as of 15 March 2011 and

- Mr. Jürgen P. Czapran was reappointed as Member of the Management Board and Chief Financial Officer (CFO) for one year, with commencement as of 12 February 2011.

Performed supervision during the business year 2010

In 2010, there were five (5) sessions of the Supervisory Board. The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, the Articles of Association of the Company, and the By-Laws on the Work of the Supervisory Board of the Company.

For the below listed matters the Supervisory Board granted its prior approval and passed respective out-of-session decisions as follows:

- The acquisition of a 100% stake in Combis usluge integracija informatičkih tehnologija d.o.o.;

- The implementation of the Mid-Term Incentive Plan 2007 for senior management of T-HT Group;

- Election of Supervisory Board Members of HT's subsidiaries - Combis usluge integracija informatičkih tehnologija d.o.o. and KDS LLC;

- The roll out of the Mid-Term Incentive Plan 2010 for senior management of T-HT Group;

- Approval of the Annual Business Plan 2011 and Strategic Plan of T-HT Group.

Aside from the 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 outside core, service orientation and focus on customer, optimization of the key processes, IP based services and quality of service, IT main projects, network strategy – platform development, fiber optical infrastructure, ICT products and services, cost management,
- Regulatory framework – regulations and requirements with regard to the distributive fiber optics network, significant market power, network access and regulated products, provisioning universal services, prepaid registration,
- New trends – launch of new prepaid brand bonbon; exclusive offering the new Apple iPhone 4 and Dell Streak tablet , MAXtv broadcast on satellite, etc.
- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system, employee satisfaction survey
- Corporate Governance and membership of the Management Board as described above,
- International activities of the Company – application for pre-qualification in the privatization of Post and Telecommunications of Kosovo J.S.C., status of the business operations in B&H market,
- Annual Business Plan for 2011 and Strategic Plan for 2012 – 2013,
- Reports and the proposals of the Compensation and Nomination Committee of the Supervisory Board with regard to the target-setting and target-achievement of the Company and Management Board and remuneration proposals for MB Members,
- Composition of the Audit Committee of the Supervisory Board,
- 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,
- Impacts of the strong competition and a serious and prolonged downturn in the Croatian economy, the mobile tax impacts, etc to the results of the Company
- Completion of the transformation process following the merger of T-Mobile Croatia d.o.o. to Hrvatski Telekom d.d.,

In 2010, the Audit Committee of the Supervisory Board held five (5) regular sessions and discussed various issues, especially:

- 2009 year-end closing of T-HT Group,
- 2010 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 2010, etc.),
- Significant risks and exposures (legal framework related to DTK/ducts, consumer protection litigation status, etc.),
- Fraud Report and Risk Reports for T-HT Group,
- Reports of the compliance officer and compliance risk assessment results,
- Audit program 2010 execution,
- Supervision over the realization of audit measures and audit reports (e.g. compliance audits, data protection, IT and network investments, revenue assurance, etc.),
- Internal auditing program for 2011.

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

In 2010, the Compensation and Nomination Committee began the target-setting procedure for 2011 and also began preparing the target evaluation procedure for 2010. 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.

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 2010 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 information, included in the attached Report of the Management Board of Hrvatski Telekom d.d. ("HT" or "the Company") on the relationships with the governing and affiliated Companies (Report) for the year ended 31 December 2010.
Management is responsible for the HT's compliance with requirements of Article 497 of the Croatian Company Law which include presenting in the Report all transactions HT undertook during the business year 2010 with the governing company (Deutsche Telekom AG) and its related parties together with the Management's assertions that all transactions and actions stated in the report have been within the scope of ordinary business and the Company has received a respective counteraction (i.e. receipt of payment or goods/services) for all of them, without incurring any damage for the Company.

Our responsibility is to express an opinion on management's assertions about HT's compliance with Article 497 of the Croatian Company Law 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 include opining on matters of legal interpretation related to the Company's compliance with requirements of Article 497 of the Croatian Company Law.

In our opinion, the financial information presented in the Report for the year ended 31 December 2010 has been properly derived from the books and records of the Company, and is consistent with the audited financial statements for the year ended 31 December 2010, and management has properly disclosed in the Report its assertions related to the financial information presented and required by Article 497 of the Company Law.

This report is intended solely for the information and use of HT d.d. for the purposes of its reporting to the HT d.d. Supervisory board regarding the Company's compliance with the requirements of Article 497 of the Croatian Company Law. It is not suitable for any other use and is not intended to be and may not be used by any other party for any other purpose.

Ernst & Young d.o.o. Slaven Đuroković
Zagreb
Croatia
4 February 2011
End of quote.

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

After considering the Management Board Report on relations with the governing company and the affiliated companies thereof, the statement of the Management Board and the results of the auditor's examination, the Supervisory Board states that the Company, according to the circumstances that were known at the time of undertaking the legal affairs and actions stated in the Management Board Report on relations with the governing company and the affiliated companies thereof, received a respective counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2010 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 2010.

The Supervisory Board, after considering the audited financial statements for the business year 2010, established that the Company acted in 2010 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 2010.

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 2010 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 1,863,783,056.60 will be distributed to shareholders as dividend payment, in the amount of HRK 22.76 per share, and the reminder of net profit in the amount of HRK 249,160.49 is to be allocated to retained settings.

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 2010.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the financial indicators, it was assessed that certain parameters were not realized to the full extent, however the Company and whole T-HT Group successfully maintained its leading position in the Croatian telecommunications market in 2010, despite strong competition and a serious and prolonged downturn in the Croatian economy.

Aside from the financial results for the year 2010, the Supervisory Board considered and approved the Company's business plan for the year 2011.

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 2010.

Guido Kerkhoff
Chairman of the Supervisory Board

Corporate Governance Code Compliance Statement

Hrvatski Telekom d.d. (hereinafter referred to as "the Company") has, in accordance with Article 250b, paragraphs 4 and 5 of the Companies Act ("Official Gazette" Nos. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08 and 137/09), 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 2010 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"), as well as the Corporate Governance Code Compliance Statement.

Given the fact that the Company's shares are admitted to trading on a regulated market, the Company applies the amended Corporate Governance Code published on the web-site of the Zagreb Stock Exchange Inc. (www.zse.hr) and on the web-site of the Croatian Financial Services Supervisory Agency (www.hanfa.hr), and in effect as of 1 January 2011.

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

- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Shareholders who are not in a position to vote in person at the Assembly by themselves should at their own discretion determine suitable proxies who are obliged to vote in compliance with the shareholders' instructions (Part 2.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate by means of modern communication technologies. Such participation will be implemented in the future to the extent that it is practical (Part 2.6.).
- The 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 2.8.).
- The Supervisory Board is not composed mostly of independent members. Only two out of nine Supervisory Board members are independent members (Part 4.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members' contribution to the Company's business performance (Part 4.7.).
- The Company does not have a long-term succession plan. For several years the Company is performing management assessment through performance and potentials reviews, with related development activities for managers. By the end of 2010 the last cycle of assessment of management, operating directors, directors and heads of work units was performed, and on the basis of results of the assessment a data base of potential successors is formed, i.e. a data base of managers that have competencies for taking over more complex work duties. (Part 4.8.).
- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 4.12.1. and 4.12.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board. Two remaining Committee members are external experts independent from the Supervisory Board (one of which is a financial expert, the other is

an internal audit expert), both are employees of Deutsche Telekom (Part 4.12.3.).
- The Supervisory Board did not prepare an evaluation of its performance in the preceding period (Part 4.16.).
- The remuneration strategy adopted for Management Board and Supervisory Board members is based on Deutsche Telekom's Guidelines, adapted for local needs. The Statement on 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 6.3.).

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 audit and control 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. Audit Manual of the Corporate Internal Audit of the Company latest updated in December 2009.

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

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

Significant Company Shareholders

The majority owner of the Company is Deutsche Telekom AG, with 51 per cent of shares. The Republic of Croatia has transferred 3.5% of shares to the owner account of the Pensioners' Fund on 30 November 2010. Following this transfer, the Republic of Croatia no longer holds shares of Hrvatski Telekom d.d. 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 Hrvatski Telekom d.d., Mr. Ivica Mudrinić, owns 4,569 shares in total; Mr. Jürgen P. Czapran, MB Member, owns 185 shares in total; Mrs. Branka Skaramuča, MB Member, owns 200 shares in total; Mrs. Irena Jolić Šimović, MB Member, owns 45 shares in total; Mr. Josip Pupić, Supervisory Board Member (workers' representative, until 31 December 2010), owns 1,069 shares in total; Mr. Ivica Mišetić, Ph.D., deputy Chairman of the Supervisory Board, owns 63 shares in total and Mr. Juko Cikojević, Supervisory Board Member (workers' representative, as of 1 January 2011), owns 263 shares in total.

Appointment of the Management Board, its Functions and the Amendments to the Articles of Association

The Members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. Pursuant to the Company's Articles of Association, the Management Board consists of between five and seven members. Currently the Management Board has six members: the President of the Management Board (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).

Following the merger of T-Mobile Croatia d.o.o. to Hrvatski Telekom d.d., from 1 January 2010 the Company is offering fixed and mobile telephony services as well as wholesale, Internet and data services as one Company, organized into two business units, Business and Residential.

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

Authorities of the Management Board Members

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

Under the Articles of Association, the Company may be represented by any two members of the Management Board.

The Management Board was authorized by respective General Assembly decisions from 2009 and 2010 to acquire Company shares, with associated prior approval of the Supervisory Board to start the process of acquiring and managing of Company shares as in accordance with the authority given by the above mentioned General Assembly decisions. No Company shares were acquired during 2009 and 2010.

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 major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board. The Supervisory Board establishes the Compensation and Nomination Committee and the Audit Committee.

II. Business Review 2010

Croatian Telecommunications Market Overview
Regulatory Environment
Group's Strategy
Organization of the Group
Business Units
Network and Information Technologies

Croatian Telecommunications Market Overview

Solid performance despite a challenging recession

T-HT Group successfully maintained its leading position in the Croatian telecommunications market in 2010, despite strong competition and a serious and prolonged downturn in the Croatian economy.

Notable events in 2010 include the following:

- On 31 December 2009, T-Mobile was officially merged into HT d.d.
- In March 2010, as part of its strategy to become a significant provider of information and communications technology and services, T-HT Group signed a Share Sale and Transfer Agreement to acquire the entire share capital of the leading Croatian IT systems integrator - Combis d.o.o. The transaction was successfully completed in May 2010.
- In May 2010, T-HT distributed HRK 2.7 billion in dividends to its shareholders (HRK 34.05 per share).
- Exclusive offers on the new Apple iPhone 4 and Dell Streak tablet from September 2010 marking a new trend in mobile computing and an extenstion of broadband offerings.
- In September 2010, as part of its expansion strategy, T-HT applied for pre qualification in the privatisation of Post and Telecommunications of Kosovo J.S.C. (PTK).
- Also in September, the Group reached 600,000 broadband customers.
- Successful launch of new prepaid brand bonbon in October, aimed at young urban professionals.
- IPTV service achieved the important milestone of 270,000 customers in Q3 2010, strongly confirming its leading position on the growing Croatian PayTV market. By the end of 2010, this number increased to more than 297 thousand customers
- As of December MAXtv is also broadcasted via satellite, making it available to any home with a satellite receiver.

Market trends

During 2010 the Croatian telecommunications market recorded growth in broadband, both fixed and mobile, and in IPTV. The economic downturn hit phone usage, with mobile calls (measured by minutes of use) decreasing at a higher rate than fixed telephony. The decline in the mobile market continued throughout 2010, burdened by market saturation and the effects of the recession on purchasing power, as well as the mobile tax imposed on operators as an emergency measure against the recession. However, mobile broadband is becoming a growth story thanks to an increasing number of smartphones and other mobile broadband devices such as tablet computers.

Macroeconomic environment

Croatian economy continues in recession

According to the Croatian Central Bureau of Statistics, the recession continued to affect the economy well into 2010, with GDP falling 1.6% in the first nine months of the year. Only in Q3 did GDP finally achieve modest growth of 0.2%, supported by tourism and a slight increase in personal consumption following a rise in seasonal employment and the abolition in July of the crisis tax on personal earnings. Unemployment in Croatia remained high during 2010 with the registered unemployment rate of 18.7% in December 2010, compared to 16.7% for the same period in 2009. The highest unemployment rate for five years, it had a strongly negative impact on personal consumption, which represents the major part of the country's GDP. Retail consumption fell by 5.3% in the first six months of 2010, while the average monthly net earning showed a real decrease of 0.5% in the first eleven months of 2010, compared with the same period in 2009. Inflation, during 2010, increased by 1.1p.p. beyond the national annual average of 2010. As for the impact on business, illiquidity rose with outstanding unpaid obligations increasing by 37% in the first three quarters of 2010 to EUR 4.4 billion. In the same period, the number of insolvent companies rose by 30% to 31,000.

Fixed-line market

T-HT maintained leadership against expected market decline

Fixed telephony remains highly competitive in Croatia, with nine operators, including T-HT, active but no new entrants in 2010. T-HT successfully maintained its leading position with an estimated market share of around 70% (source: Croatian National Regulatory

Agency, September 2010). This success reflects the Group's continuing dedication to high-quality services and improved marketing with offers tailored to suit the needs of specific customer segments. According to the Croatian Central Bureau of Statistics, the number of fixed-line minutes of use (MOU) decreased by 0.8% during the first nine months of 2010. There was no major change in fixed-line penetration, which is around 41.8% of the population, according to the National Regulatory Agency.

Mobile telecommunications

T-HT leads saturated market, mobile internet the new trend

T-HT, through its T-Mobile brand, remained the leader in a saturated market, with mobile penetration of an estimated 143.9% served by three operators since 2005. According to the Croatian National Regulatory Agency, the Company's share of total mobile customers in Q3 2010 is estimated at around 45%. According to the Croatian Central Bureau of Statistics, total Croatian mobile market minutes of use (MOU) decreased by 1.6% during the first nine months of 2010. Demand for mobile Internet grew steadily with all three mobile operators promoting their mobile broadband offers. In 2010 the two leading mobile operators both posted lower revenues.

Internet

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

T-HT remained the largest provider of broadband services in Croatia, continuing to expand the roll out of its high-speed MAXadsl offering and augmenting it with premium services such as MAXtv – the Group's IPTV service. During 2010, T-HT continued to improve its IPTV service by adding new channels and launching a Sports package featuring the best international sport channels and exclusive sports content. At the end of 2010 the Group had 629,228 ADSL subscribers, up from 554,995 in 2009. The number of IPTV customers at the end of 2010 was 297,496, representing 47.3% of T-HT's total ADSL customer base.

Despite the strong increase in subscriber numbers, Croatia's broadband market remains a significant growth opportunity for T-HT, with just 43% of Croatian households connected via broadband compared to an average of more than 55% in Western Europe.

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 telecom market 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 in a fully liberalized telco market; T-HT remains the largest player with the most extensive network coverage

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. As market liberalization continued, the number of ULL customers increased from 123,054 in 2009 to 132,821 at the end of 2010.

Regulatory Environment

In Q4 2010 the Agency for Post and Electronic Communications (furthermore: the Agency) initiated the revision procedure for the fixed origination and termination fee and the mobile termination fee, to adjust these prices to the EU benchmark on annual basis, as prescribed by the Agency decisions from 2009 (on SMP designation and imposition of remedies in fixed/mobile interconnection markets). As a consequence, HT's interconnection prices were decreased and set at the following level:

- Local origination and termination fees in fixed (peak/off peak): 3,9 lp/min / 1,95 lp/min
- Single tandem origination and termination fees in fixed (peak/off peak): 5,9 lp/min / 2,95 lp/min
- Double tandem origination fee in fixed (peak/off-peak): 11,3 lp/min / 5,65 lp/min and double tandem termination fee in fixed (peak/off-peak): 11,4 lp/min / 5,7 lp/min
- Mobile termination fee: 0,396 kn/min

New prices start to apply from January 1st, 2011.

In September 2010 the Company delivered to the Agency audited Regulatory financial reports for the financial year ended on December 31st 2009 based on HCA/FAC methodology, with a detailed document on allocation methodology. After the delivery of these documents the Company published final and audited Regulatory financial reports.

In addition, by its decision adopted in March 2010 the Agency determined that the "X" percentage, which should be used to calculate the Company's prices for wholesale bitstream access service on copper network – IP level (retail minus methodology), should be 40%. Further price reduction of the wholesale bitstream access service was adopted by the Agency in September 2010 (price reduction for virtual private channels for voice and IPTV services).

Also, according to the Agency's decision on SMP designation and imposition of remedies in the wholesale broadband access market, the Company is obliged to have a "reference offer for the wholesale bitstream access over the Company's fibre optics access network" published as from January 1st, 2010.

The procedure regarding the Company's proposal of prices for the wholesale bitstream access over Company's fibre optics access network is currently ongoing before the Agency.

The existing SMP status of the Company in the market for leased electronic communications lines, and the joint SMP status of the Company and Iskon in markets for public voice and data transmission in fixed network, as determined by the Agency in 2007, remains. According to existing remedies in these markets, prices for retail public voice in the fixed network and leased lines are subject to cost-orientation and ex-ante approval by the Agency.

However, in line with the above mentioned new regulatory framework, and taking into account the latest EU recommendations, in February and March 2010 the Agency initiated a new round of market analyses for the following leased lines/public voice markets:

Leased lines markets:

- Wholesale terminating segments of leased lines, irrespective of the technology used to provide leased or dedicated capacity
- Wholesale trunk segments of leased lines
- Market for the minimum set of leased lines

Access to the fixed network and public voice markets:

- Access to the public communications network at a fixed location for residential and non-residential customers
- Publicly available local and/or national telephone services provided at a fixed location for residential customers
- Publicly available international telephone services provided at a fixed location for residential customers
- Publicly available local and/or national telephone services provided at a fixed location for non-residential customers
- Publicly available international telephone services provided at a fixed location for non-residential customers

In January 2011 Agency finalized public consultations on analysis of a retail market of Access to the Public Communications Network at a Fixed Location and announced public consultations on Analyses of Four Retail Markets of Publicly Available Telephone Services Provided at a Fixed Location (national/international voice for residential/business customers). Following the market analysis current remedies will cease to apply, whereas new remedies will be imposed by the Agency's decisions:

- Analysis of Retail Market Access to the Public Communications Network at a Fixed Location : final decision on SMP designation could be expected by the end of Q1 2011; the following new regulatory remedies could be expected: wholesale line rental, naked DSL, provision of "pure" network access (without additional services included, e.g. POTS).
- Analysis of Four Retail Markets of Publicly Available Telephone Services Provided at a Fixed Location: public consultation announced 27th January, 2011; final decision could be expected by the end of Q1/ beginning of Q2 2011

In January 2011 the Agency opened a public consultation on amendments to the Analysis of Wholesale (physical) Network Infrastructure Access (including shared or fully unbundled access) at a Fixed Location. The public consultation ends on February 21st, 2011.

In October 2010 the Company was (re)designated as the universal service provider for next five years for all universal services (except for the subscribers' directory, which the Company can continue to provide on a commercial basis). Tariffs for universal services must be set at an "affordable level". Other tariffs, besides those mentioned above, are subject to ex-post review and are essentially unregulated.

The Operational-technical Centre for Surveillance of Electronic Communications (OTC) adopted a Temporary Protocol regulating the issue of registration of pre-paid customers in mobile networks. T-HT filed a complaint against the Protocol, challenging its legality. OTC and the Agency performed expert supervision on the implementation of the secret surveillance obligation and the immediate identification of users. In December 2010 the Expert Supervisor of the Agency passed a decision in which it determined a breach of Article 108/4 of the Electronic Communications Act by the Company, for not enabling immediate identification of all users to the relevant competent bodies and imposed on the Company an obligation to take all necessary actions in order remove all deficiencies and enable the competent bodies immediate identification of all new users by March 1st 2011 and all existing users by September 1st 2011.

A new Croatian Law on Electronic Communications is being drafted. The Company is participating in this process via industry associations. The purpose of this new law is to transpose EU regulatory framework from 2009 into the Croatian legal system. It is expected that the new law will enter into force in Q2 2011.

In January 2011 HAKOM imposed changes to Reference Unbundling Offer (RUO) of the Company with almost 70 amendments, including: obligation to give access to network even in cases where there is no existing access line available; introduction of VDSL technology; reduction of installation fees; and lower monthly fees for the second and third access line to the same end-user.

Group's Strategy

T-HT Group Mission:

Communication, Information & Entertainment, Always & Everywhere

Enormous volumes of photos and film clips are uploaded to the Internet and viewed every day, while virtual communities and social networks 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 devices. Checking e-mail and using the Internet are part of our everyday life. The Internet has revolutionized 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, information and thoughts.

Key strategic directions

The market is experiencing 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 a robust broadband network, developing value-added services and providing ICT products and services on top of our core telco offerings.

Our strategy is based on three main pillars:

FIX – TRANSFORM - INNOVATE

The "Fix – Transform – Innovate" strategy has a dual focus: the first focus involves developing and expanding new segments of growth by exploiting new consumer and technological trends built around Internet, media and ICT services. The second involves continued focus on protecting the Company's traditional fixed and mobile business.

To achieve its targets, Hrvatski Telekom has defined the following key areas of action in its strategic program:

Connected Life across all screens

The Group is focusing on broadband and broadband-related products such as IPTV, value-added services (VAS) and other content for growth. Encouraged by the success of MAXadsl, MAXtv and tportal, Hrvatski Telekom intends to further shape and lead the Croatian Internet and PayTV markets.

Connected Work with unique ICT solutions

Information and Communications Technologies represent a natural extension of the Group's existing telecommunications businesses. In the second quarter of 2010, the Group acquired Combis, the leading Croatian systems integrator, to augment the Group's portfolio, enabling it to offer a broader and more compelling array of products and services right across its customer base. At the same time, it will strengthen T-HT's competitive position against other telco companies and also against ICT companies looking to provide telco services. The Group is committed to expanding its ICT offerings in the coming years.

Build networks and processes for the Gigabit Society.

We are witnessing an exponential growth in average bandwidth usage per customer, the trend which is expected to intensify even more in the upcoming years. Following up with this trend is not possible without significant infrastructural and technological investments.

Therefore, HT continues to modernize its fixed and mobile networks by 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

Hrvatski Telekom is continuously improving the quality and efficiency of its operations by transforming its operations 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 optimize Group operating costs and protect margins in an increasingly competitive environment.

Talent Management

Recognizing that knowledge rapidly becomes obsolete and that service-focused employees are its key asset, Hrvatski Telekom invests in talent management, education and training of staff. In this way, we are able to attract and retain first-rate people with whom we build our business.

Regional expansion

The Group continues to monitor and evaluate expansion opportunities and in September 2010 applied for pre-qualification in the privatization of PTK in Kosovo.

Organization of the Group

Corporate Structure

New, customer-oriented organization from 31.12.2009
Name changed from HT-Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d.

Focus on building superior customer service, dedication to efficiency optimization and dynamic changes on the global and local telecommunications market have driven the transformation of the Group and the consequent merger of T-Mobile Croatia LLC with HT d.d.. On 31 December 2009, 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. At the same time, T-HT reorganized its technical, support and steering functions to provide maximum efficiency across the Group. The transformation enables T-HT to improve even further the way it operates, providing business and residential customers with dedicated sales and support organizations capable of offering the full range of products and services available from across the Group. Furthermore, the reorganization of internal business operations and processes enables significant synergies and cost savings.

On 20 May 2010 Supervisory Board of the Company had confirmed registered name change of the Company from HT-Hrvatske telekomunikacije d.d. to Hrvatski Telekom d.d. In addition to the status change following the merger of T-Mobile into HT, the reason for this change is also the alignment of the registered name of the Company to the corporate brand "Hrvatski Telekom" , under which the Company is recognized in the Croatian telecommunications market, Zagreb and London Stock Exchange, as well as in the region.

Organizational Structure

Group

The Group's new organization is based on Business and Residential units and centralized technical functions (CTO/CIO), support and steering functions (CEO, CFO and CHRO), as well as number of subsidiaries including Combis d.o.o., Iskon d.o.o. and KDS d.o.o.

Residential unit

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

Business unit

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

Business units: Residental and Business

T-Com

T-Mobile

Business units: Residental and Business

On 1 January 2010, the previous 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 transformation is enabling us to improve the way we do business, providing dedicated sales organizations capable of delivering a full range of products and services for both Residential and 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 other activities vital to the business.

As a result, in 2010 T-HT provided specially tailored integrated offers for different industries or groups of customers, that respond to their specific needs.

At the end of May 2010 T-Com launched a new promotional offer for new customers, offering them a Simpa package with an attractive mobile phone. At the same time a new bundled offer was launched combining ADSL with Mobile Internet, where customers receive a monthly fee discount of 50% to 66.7% on Mobile Internet use, depending on their selected Mobile Internet tariff, when signing a 24-month contract on ADSL. The offer continued until the end of the year.

In the third quarter of 2010, T-HT launched a bundled promotional offer to its fixed and mobile business customers. New and existing Super Business Paket 100/500 customers willing to sign a 12-month contract will receive 30% more minutes on top of the package included in the monthly fee. If the same customer signs a 24-month contract for Flex Team 500/700/1000/1500/2000/2500/3000, they will receive 100 kuna monthly fee discounts for each new Flex Team member over the next 12 months.

Sales Developments

T-HT continues to optimize both its own and its partners' retail networks to improve customer service and relationships. Continuous efforts are made to improve sales efficiency and service levels both in shops and in the customer service centres.

Major achievements in Sales were:

- Enhancement of T-HT's own retail network by opening new T-Centers and refurbishing or relocating some existing ones
- Enhancement of the indirect partners' network via deeper market coverage
- Development of new sales channels to be even closer to the customer through a direct sales force
- Improvement of the internal processes to enable a more consultative sales approach to help customers
- The "Smart" cost-management program that contributed to increased efficiency
- Simplified and enhanced the direct approach to business customers through full integration of T-Com and T-Mobile sales
- Fully optimized approach and support for key accounts and government institutions, resulting in market share preservation
- Positioning as a serious ICT provider in the market, through own solutions and collaboration with Combis
- Successfully realized unique ICT solutions for business customers with different industry needs
- Customized ICT solutions for the SME market (Desktop management)

T-Com

Overview

Throughout 2010, T-Com continued to lead the market in all fixed-line segments, despite ever-increasing competition.

- Retained leading position in the Fixed network and Internet market
- Increased broadband and IPTV subscribers, reaching 629,228 ADSL customers and 297,496 IPTV customers
- Successfully promoted IP Telephony
- Developed specific ICT solutions for customers including SME Desktop management
- Launch of DTH – Direct to home satellite TV service increasing coverage

Total revenue from T-Com decreased by 1.2% to HRK 4,981 million in 2010 (2009: HRK 5,044 million). The decrease in T-Com's revenue was primarily due to the decrease in the fixed-telephony customer base and fixed-telephony traffic mainly caused by the fixed-to-mobile substitution and a decrease in wholesale revenue. The decrease was partially offset by the increase in the revenue from Internet services, particularly ADSL and IPTV.

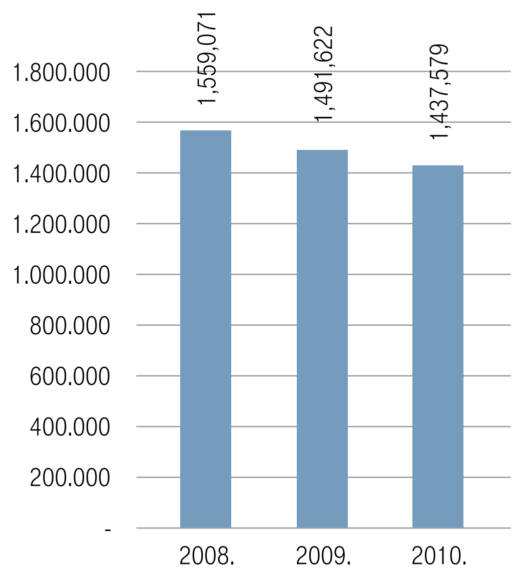
Major Achievements in 2010

Fixed telephony

T-Com continued to hold its market-leading position with 1.4 million fixed mainlines at the end of 2010, 3.6% less than at the end of 2009. The number of access mainlines provided by T-Com has declined in accordance with global market trends away from fixed line telephony and increasing competition in the fixed-line market, including competitors' direct access to newly built infrastructure and ULL.

By the end of 2010, T-Com had a total of 1.4 million fixed-access mainlines, number (POTS+FGSM+ISDN), 3.6% lower than in 2009. This decline is in line with the market trend of fixed-to-mobile and IP substitution, but is falling at a slower pace than expected, partially because T-Com is responding to growing competition with attractive promotional offers and high standards of service.

T-Com total mainlines



T-Com users used 3.2 billion minutes in 2010, 8.3% lower than in 2009.
Fixed voice ARPA decreased 5.2% from the last year as result of the general market trends described above.

Internet services

Internet services include dial-up and broadband access and traffic, IP VPN services, IP Centrex services (VoIP), IPTV, content and multimedia services like ASP services and web hosting services.

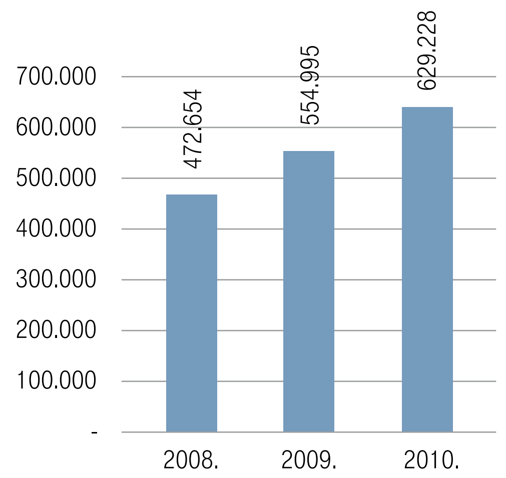
Dial-up

Although the total number of dial-up users is 18.5% higher than 2009, the number of active dial-up users is 56.9% lower as users migrate to new and advanced broadband services that T-Com is constantly promoting.

ADSL

By the end of 2010 T-Com reached 629,228 ADSL customers, up 13.4%on 2009. At the beginning of the year, in order to encourage customers to use the more favorable MAXadsl traffic package, T-Com expanded its existing "10 GB" package to "15 GB" for the same monthly fee.

T-Com ADSL users



In the course of the year numerous promotional activities have been realized: the offer of a 250GB hard disk or digital camera for customers willing to renew their contract, a “Member get member” referral campaign, a Christmas campaign, and promotional prices on Apple Mac laptops, newly available in T-Centers, aimed at increasing the use of broadband services.

IPTV

Growth in IPTV is even stronger than ADSL growth. By the end of 2010, IPTV services reached 297,496 customers, 26.1% higher than the end of 2009, supported by a constantly increasing selection of programs and movies.

A number of successful acquisition campaigns were launched throughout the year (Valentine’s Day Campaign, Easter Campaign, Summer, Christmas...), all of which were based on a reduction in the basic subscription, combined with additional packages included free for a number of months of contract.

In the third quarter T-Com introduced the new Basic Extra Package, with 108 channels included. At the same time, the Sport Package of 11 sport channels was launched, attracting a significant number of subscribers by the end of the year. The unique attraction of the package is its exclusive football content featuring several European top-league action.

In December T-Com significantly increased MAXtv coverage by launching the service on satellite, making it available to any home in the country equipped with a dish and receiver.

Aside from T-Com’s MAXtv brand, T-HT also offers IPTV through its Iskon internet subsidiary, which launched Croatia’s first triple-play service, Iskon Trio, offering internet, TV and telephony in a single package.

IP Telephony

T-HT is constantly promoting IP telephony. In the third quarter it launched a new service enabling the connection of ISDN PBX to a Net phone service.
In the last quarter, T-Com offered substantial discounts of 60% on IP telephone rental fees, 50% on additional Voice Gateways and 90% for Softphone applications.

IP VPN & Net Pro

By the end of 2010, there were 9.0% more VPN connection points than in 2009. Net Pro (Fixed-lines) customers increased 9.5% and T-Com is constantly promoting migration of existing traditional data customers to more modern IP-based products.

tportal.hr

In 2010 tportal.hr continuously ranked among top-three web portals in Croatia according to reach, with more than 700,000 unique visitors per month according to Gemius, an independent Internet traffic research agency. In addition to redesigned homepage, several strategic projects were undertaken including the distribution of content into microsites divided according to target groups.

tportal’s editorial, design and development team has continuously improved services such as shopping, playtoy, maxzona (video content), daily (tportal in English) and webmail. Content is available through PDAs, mobile devices, SMS information alerts, the T-Mobile WAP portal and on social networks like Facebook and Twitter. In addition, T-Mobile iPhone users enjoy a customized interface when browsing tportal.

Data services

In 2010, T-Com continued to focus on the migration of customers from traditional data towards new services such as Metro Ethernet and IP VPN, supported by promotional efforts.

The number of lines provided by T-Com declined 4.6% in comparison to December 2009. Although T-Com faces competition in respect of both Metro Ethernet and IP VPN services, we believe T-Com's main advantages over its competitors are its network coverage and the quality of its service.

Wholesale

International wholesale market

Even with strengthened domestic competition and the increased activities of foreign operators in the market, 2010 was a successful year for T-Com in the international wholesale market. Total revenue decreased only 1.8%, due to increased competition and a significant fall in prices in the international market. On the other hand, the total cost of purchased international services decreased by 4% compared to 2009.
T-Com's flexible interconnection policy resulted in an increase in the number of international voice and data interconnections from 60 in 2009 to 70 in 2010. Despite increasing fixed-to-mobile substitution and recessionary influences, increased sales activities and a strengthening of T-Com's competitive position in the regional market ensured that the volume of international traffic terminated to Croatian fixed networks via T-Com wholesale remained at the same level as in 2009.

T-Com's position in the international market was improved through the implementation of four new border crossings and extensive upgrades to the capacities of existing border-crossing points of presence.

On the cost side, further savings were achieved as a result of the strategy of replacing commercial IP upstream with free international peering wherever possible. From a 0.4% share of free of charge peering in total international IP transit at the end of 2009, T-Com Wholesale achieved a 17% share by the end of 2010.

Significant cost reductions and further network expansion strengthened the competitive position of T-Com in international markets. In the market of Bosnia and Herzegovina, T-Com international wholesale maintained its extremely high IP market share of around 75%. All these factors led to a 23% increase in revenue from international IP services compared to 2009.

Domestic wholesale market

Domestic wholesale experienced a slight growth in the termination market (3.6%) and a larger fall 7.2% in origination. The overall result of these two trends is a stagnation of the interconnection market.

The strategic focus of operators on ULL (Unbundled Local Loop) remained evident in 2010, resulting in an increase in number portability and a stagnation in the number of active carrier pre-select (CPS) customers compared to previous years, due to the migration of former CPS customers to ULL services.

The main operational activities of the Wholesale business were related to the activation of new ULLs and further expansion of local interconnections via their own infrastructure. The operator can lease a line from T-HT or reach the customer by the operator's own line which is more affordable to the operator. In such a case, the operator pays only the lease of premises at the location of HT. Initially, all relations were realized through the lines leased from T-HT. At the moment, 92% of the relations has been realized by means of the operator's own lines. The number of active ULLs increased to 132,821 at the end of 2010, compared to 116,828 in 2009. Growth in the ULL customer base also contributed to a slight increase in national terminating minutes.

When it comes to the total call minutes terminated in our network from networks of other operators, we noticed that, occasionally, some mobile operators do not send their traffic directly to our network, but through some alternative fixed operators.The main driver for this is debt compensation between mobile and alternative fixed operators and price arbitrage arising from local interconnection established by fixed operators.

The Value Added Services (VAS) market stagnated in 2010 as a result of unfavorable regulatory conditions imposed to T-Com.

In the Data/Capacity market, there is still strong competition with a significant impact on price and margin. Mobile operators remain the biggest capacity consumers due to the growth of mobile broadband networks and increasing fixed-to-mobile substitution. Migration to an all-IP network in mobile is influencing data / capacity offerings and solutions, while microwave solutions are becoming a very competitive part of the access network. In addition there is a significant demand for high capacities in the core network where different facility providers are competing with networks built on cheap and accessible DTI.

The Wholesale proposition for fixed broadband (bitstream offer) was one of a major focuses of the National Regulatory Agency in 2010. HAKOM ruled that the HT-defined provisions in the bitstream exchange offer on 15 September 2010 and T-HT announced a bid on 5 October 2010. In 4Q 2010, almost all active operators approached T-Com to contract this service.

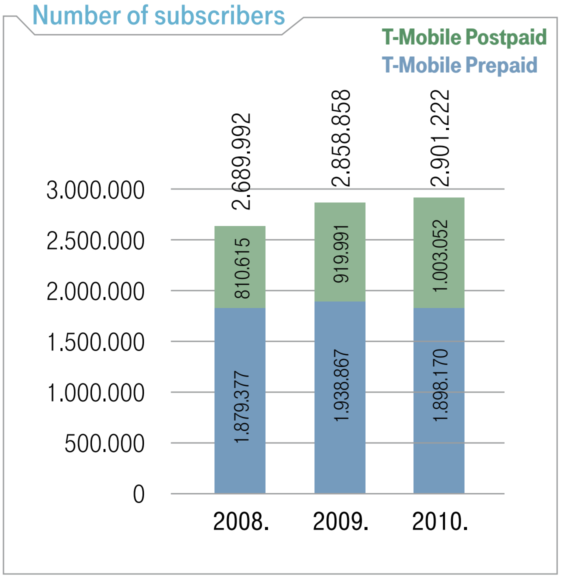
T-Mobile

Overview

T-Mobile's year was marked by following achievements:

- T-Mobile remained the leader in the mobile market with 45.5% share of subscribers
- T-Mobile ended the year with more than 2.9 million subscribers, up 1.5% on 2009
- iPhone 4 successfully launched, spurring demand for mobile internet
- Continuous retention efforts in both prepaid and postpaid markets
- Improvement of prepaid loyalty programs
- Improved pricing of prepaid tariffs and the introduction of the new Maraton tariff
- New postpaid tariffs launched; Tarifa za Sve, AHA, i75 and Jupiii tariff redesigned
- Redesign of Flex Family and Flex Team tariffs
- Refreshed offers of VPN and Mobile Internet
- Successful launch of bonbon, a new prepaid brand aimed at young urban professionals

Number of subscribers



Major achievements in 2010

During 2010, mobile penetration in Croatia increased from 136.5% to 143.9% at the end of the year.

T-Mobile maintained its market-leading position with 45.5% share of SIMs (2009: 47.2%). At the end of 2010, T-Mobile had 1,003,052 postpaid customers (2009: 919,991) and 1,898,170 prepaid customers (2009: 1,938,867). Through a series of successful marketing campaigns aimed at converting prepaid customers to postpaid accounts, T-Mobile's share of postpaid in total customer base rose from 32.2% to 34.6% during 2010.

Products and Services

In 2010, T-Mobile improved its offerings with new tariffs and options, increasing customers' satisfaction in both the Residential and Business segments.

The Simpa +Club loyalty program for prepaid customers was redefined in order to create a transparent loyalty program that meets customer expectations.

In September, T-Mobile began to offer the iPhone 4, demand for which was substantial. T-Mobile was also the first in the market to launch the BlackBerry Storm 2 smartphone for both business and personal use.

In the second quarter, T-Mobile completed the price redefinition of its prepaid tariffs. A new tariff – Maraton (on-net calls for 0 kn/min, after 1st minute) was also launched, targeting high-value customers. A new weekly prepaid option Naj broj was also introduced.

At the same time, T-Mobile launched a number of postpaid tariffs, including Tarifa za Sve, which enables customers to spend the whole amount of subscription and which includes free on-net calls. The new AHA tariffs are among the most competitive in the market, being SIM-only tariffs, perfect for customers who do not wish to purchase a handset when signing a contract, but who still wish to obtain a more favorable pricing plan.

For mobile internet use through handsets, a World Class Data Plus roaming option was introduced and extensive calling to abroad became even more accessible by using new option Pozivi u inozemstvo.

To support smaller-scale entrepreneurs, T-Mobile redesigned the Flex Business Start tariff with 200 on net minutes included in the monthly fee, which could be combined with different data options. Three new VPN Plus tariffs offered more flexibility to business customers, as in addition to the standard benefit of 0kn/min inside the VPN, their monthly fee included minutes and SMS, national Data traffic and BlackBerry service.

In the postpaid segment, in 2010 were continued initiatives from 2009 where 50% discount on monthly recurring charge or no monthly recurring charge for limited period was offered to customers, especially in the mobile data tariffs (mobile Internet), mainly focusing on retaining the existing customers. Various initiatives were launched promoting different mobile internet solutions. Internet options were developed as well in both postpaid (with a new web'n'walk 3 months for free offer) and in the prepaid segment (redefinition of Internet options and new Simpa options Internet S/M/L/XL).

The postpaid tariff portfolio was refreshed in the third quarter. For small-screen internet users, the i75 tariff offered a low entry level, while the i150, i300 and i500 packages are designed to appeal to higher-usage customers. T-Mobile remains the leader in providing both small-screen and large-screen mobile internet packages.

Jupiii 28 and Jupiii 68 were launched in August, representing the redefinition of existing Jupiii tariff and offering the same price to all networks with the goal of attracting and retaining low-end users affected by the poor economy.

All Flex Family tariffs were redefined in terms of prices and the number of members allowed in the package. A new promotional paid option called Ljetna Opcija was introduced during summer months. Combining 500 free minutes and text messages for 0.06 kn in a monthly package of only 29 kn, it represented one of the most attractive summer mobile solutions in the market.

For Christmas, strong acquisition and retention campaigns were launched in both postpaid and prepaid. For prepaid users who bought the new SIMPA package, every second month in 2011 they will receive back on account the amount that they spent in previous month. New and existing postpaid customers will receive a discount on their bill every second month in 2011, to the amount of their previous month's bill. Additionally, as a Christmas special promotion, T-Mobile offered business customers willing to sign a new contract a 50% discount on monthly fees during 2011 for Flex Team tariff packages, Mobile Internet and BlackBerry Instant e-Mail.

In October, the new bonbon prepaid brand launched with offers tailored for young urban professionals, including the Dnevni paket with a promotional price of 3kn/day including usage of Data, SMS and Voice.

Network and Information Technology

Network and Service Platforms

Network and Service Platforms are HT's core infrastructure which is continuously being upgraded and improved in line with the Company's strategy and marketing plans. By consolidation of our business operations, we started converging the functionalities of our resources in both the fixed and mobile networks on joint service platforms, thus achieving improved availability of services and more cost-efficient operations. Moreover, in 2010 we have been working on the further development of our network infrastructure, on increasing broadband access capacity as well as on setting up a common, fixed and mobile, transport and core network.

In the field of fixed networks, HT has adopted a strategy of providing all services via one common, basic broadband port – which triggered the transformation of its access network by construction of a new optical access network, including an optical access platform (GPON) and selective modernization of copper access network. Furthermore, we initiated functional upgrades of the existing PSTN network to enable VoIP telephony provision on broadband.

In the field of mobile networks, continuous radio access and core network transformation will support the development and rapid implementation of new, economically optimized technologies (e.g. HSPA, LTE), while taking into account maximum utilization of existing infrastructure and frequency resources.

Network infrastructure

Fiber optical infrastructure

The leading activities were on in-house optical wiring on existing constructed FTTA (fiber to the area) potentials and new building acquisitions. The goal was to increase RoI despite regulatory limitations.

Technical facilities

The construction of the third out of a total of four system halls of the technical facility LTDS (Long-term Data Storage) Varaždin has been finished.

Fixed access

DSL (Digital Subscriber Line)

Roll-out of DSLAMs (DSL Access Multiplexers) continues. The VDSL2 (Very-high-speed DSL) pilot has been deployed at four central office locations in Zagreb in order to test technical conditions of VDSL2 technology in HT's access network.

Mobile access

Modernization of 3G RAN

Hardware finished in March 2010 as the first within DT Group. This will enable unhindered development of functionalities in mobile broadband access.

Rollout of network sites

Rollout of network sites is progressing with new GSM900, GSM1800(DCS) and UMTS installations on-air. In June 2010, a trial of Flexi BSC system was successfully completed and will enable smooth evolution of the 2G network towards multiradio HW concept, which is the foundation for the deployment of new cost-effective broadband mobile technologies (e.g. LTE - long term evolution).

Transport Layer

DWDM (Dense Wavelength Division Multiplex)

Rings with huge capacity in Zagreb (that connect major inner City traffic nodes) and in Region South (that connects traffic mainland nodes as well as nodes on islands) have been installed and put into service enabling even faster provisioning and growth of customer and Wholesale requests for broadband services. Both highly reliable and flexible, rings will enable the convergence of all levels of fiber-optic networks (national, inter-county and city).

Migration to IP

The migration of 3G sites from ATM (Asynchronous Transfer Mode) to IP (Internet Protocol) is in full progress, aiming to increase mobile broadband data speeds and to lower cost in order to provide better customer experience.

Core Layer

Mobile core modernization

The existing MSC/VLR (Mobile Switching Center / Visiting Location Register) has been replaced by new technology and architecture, as a prerequisite for the migration of the entire mobile core network to an "all-IP" environment, to enable VoIP based services and evolution to an IMS (IP Multimedia Subsystem) based architecture. HT was the first operator within the DT Group where migration of voice traffic was done from traditional R99 based architecture toward new, layered R4 network architecture. Software and hardware upgrades of HLR (Home Location Register) system were completed successfully in order to ensure higher capacity.

Extending the mobile core capacity

Core packet network capacity extension and preparation for IP evolution in order to support mobile Internet growth is on-going. The PCRF (Policy and Charging Rules Function) platform was introduced.

PSTN Migration

Commercial activity has begun on the PreIMS platform (VoIP platform for residential customers) and migration of HALO customers has started.

SIPEC (SIP enabled Core) project

Soft switch functionality has been installed in two transit nodes, a redundant node in Rijeka has been prepared, and migration of access nodes from AXE telephony exchanges has been started, so the first one (AXE Beli Manastir) has been switched off. By the end of 2010 two migrations were completed (AXE Trogir and Solin).

Service Layer

Mobile IN

Preparation for migration to Next generation RTSP (Real Time Service Platform) V8.1 has been finished for VPN services. With the upgrade of the VOMS (VOucher Management System) prepaid recharging system to V7.6, the platform capacity has been increased. The new CB10 algorithm for ciphering and increase of voucher security was introduced. Automation of voucher commission sales process (SAP integration) completed.

Portal services

Common SSO (Single sign-on) mechanism has been established for all self-service user portals (My T-Com, T-Center Online, My T-Mobile and T-Mobile WebShop). Self-service and a webshop portal have been established for "bonbon" users.

SMS Platform

Within the SMSC infrastructure modernization project, SMS service has been successfully migrated to the new production and disaster recovery SMSC nodes, enabling increased static hardware capacity. New "Flash SMS" functionality has been launched, enabling HT mobile customers to be notified when handset memory capacity has been exceeded, thus preventing SMS messages to be delivered to their handset. The Business Support System (BSS) for third party service providers' access to HT mobile infrastructure (SMS/MMS/charging) has been upgraded.

IP TV

The DTH (Direct-To-Home) service was commercially launched in December 2010 with all planned functionalities. Fine tuning and intensive monitoring of the system is ongoing. Testing and planning of new television-related applications, platforms, advanced functionalities and end-user equipment is continuing (3D TV, Mobile TV, new generation MAXtv STB, interactive applications etc.).

Service and Network Operations

Quality and Efficiency

Within the scope of the Six Sigma Project, activities were initiated with a focus on efficiency and improved quality broadband services delivery. A change of business model for CPE (Customer Premises Equipment) management has been implemented, along with all related processes. Internal quality comparison of 3G data services among mobile operators on 879 points in cities and towns was completed and results show that HT has the best bit-rate performance.

Service Culture Project

Project is continuing, educations for Technician as salesperson and certifications of technicians for broadband, business and ICT services. The consolidation and education of external contractors is finished.

Provisioning and fault-repair

The implementation continues of new and advanced functionalities for automatic broadband provisioning and fault repair, which substantially reduced the amount of reported faults in the field. A segmented approach for provisioning and fault repair was introduced to optimize the use of resources. The roll out of ICT services is continuing successfully, realizing projects for key accounts in more than 500 locations.

Information Technology

Information Technology is one of the key business enablers in the telecommunications industry and a powerful tool to improve customer service. Information and Business Systems Sector 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.

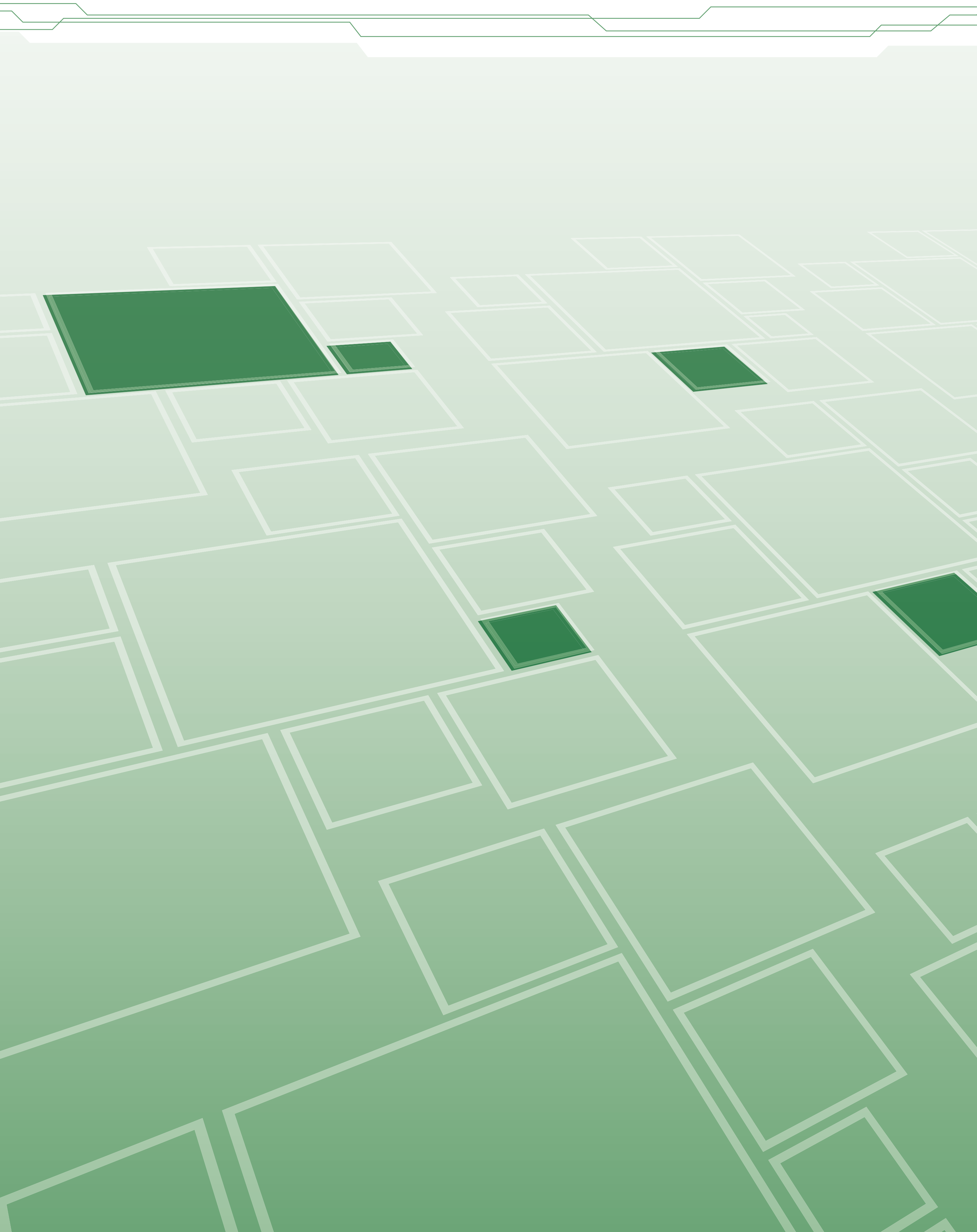
Significant effort is directed towards improving our service delivery processes, developing advanced customer, market and business intelligence capabilities. IT is recognized as the key enabler to bring process standardization and automation to the level when it can further improve internal efficiency and achieve over the envelope savings.

Notable achievements in 2010 include:

- Successfully finished already initiated important projects that support company strategic goals and to optimize and improve new services and bundles launch: Complete Architectural Solution and Support (COMPASS) for NGN services – Phase 1, Geneva billing system upgrade, CCS (Commission Calculating System), etc;
- Avaya based platforms aligned in Call centre - enabling fully functional universal call agent sit independent of the location and application to achieve better service quality and resource utilization;
- Project DDS (Documentation & Design Systems) - implementation of the single tool significantly improving documentation and cable network planning finished;
- MPC (Multi project control) system for monitoring, ordering and controlling services from suppliers / sub-contractors as well as optimization and automation of internal processes – Phase 1 finished.
- DCC (Data Center Consolidation) project is on-going to consolidate HT's data centers (5 to 2 sties), significantly reduce maintenance costs and configure and prepared infrastructure for virtualization and cloud computing concept;
- By the merger of T-HT and T-Mobile, numerous IT projects to further integrate, optimize and standard internal processes are finished.

Data and IT Security

The protection of data of customers, sales partners, employees, shareholders and telecom traffic data is a crucial concern throughout the HT. The mediation system for fixed voice services is certified according to the international standard ISO/IEC 27001:2005. For the earlier certified mediation system for mobile services, regular continuous assessments are performed successfully.



III. Corporate Responsibility

Key areas of T-HT Group's CR strategy
Social responsibility
Responsibility to employees
Responsibility to customers
Responsibility to vendors
Environmental responsibility
Corporate responsibility in subsidiaries

Corporate Responsibility

T-HT Group aspires to set a high standard of corporate responsibility (CR) across all areas of its business.

The Group's vision is to be a company that encourages sustainable development, defines best practice in setting standards for top-quality communications, stimulates the integration of people into the information and knowledge society and takes a leading role in recognizing the importance of environmental protection.

The T-HT Group believes that the reputation of any organization is not merely dependent on the quality, price or specific features of its products and services. Attitudes towards employees, customers, suppliers and investors as well as towards environment and the wider community within which it operates are of equal importance, while positive interaction with all stakeholders forms the framework for T-HT's CR strategy.

Key areas of T-HT Group's CR strategy

Connected life and work

Enabling best possible connection in private and in business life is essential in our business. The goal is to develop innovative solutions in telecommunications and offer services which will improve everyday life by top-quality communication and connection.

Connect the unconnected

Our goal is to provide as many individuals as possible with access to telecommunication services, integrating them into the Knowledge Society. We wish to make advanced technologies available to everyone, at any time.

Low carbon society

One of the Group's key targets in the area of corporate responsibility is environmental protection, responsible exploitation of resources and reduction of greenhouse gasses.

Principles of Corporate Responsibility

T-HT Group's day-to-day activities are managed by its corporate values such as ethical conduct, focus on customers, mutual respect, team work, achievement of the best possible results in the most efficient manner, open dialogue and responsibility to all its stakeholders and the creation of an environment that recognizes ffort and rewards results.

Promoting dialog across all stakeholder groups

T-HT Group strongly believes in the importance of open and transparent communication with all its stakeholders.
2010 was marked by an increased use of social networks as a new communication channel with key publics. In October we presented Facebook, Twitter, YouTube and Flickr profiles through which we communicate daily with customers, provide support in problem solving and get feedback about products and services we provide.
The Group also places great importance on transparent communication with investors at all times so that they are always equipped to make a fair evaluation of the position and potential of the Group. At the 20th Zagreb Stock Exchange Conference held in October 2010, T-HT won the award for best investor relations.
T-HT does not support the funding of political parties or campaigns.
The company supports initiatives that fight corruption and its consequences, such as Transparency International.

Operational compliance

The overall operations of the Group are based on integrity and compliance, i.e. on observing of laws, standards, internal and external regulations. The Compliance Department, established in 2008, promotes principles of ethical operations. At the end of 2010 the Anticorruption Policy was adopted which effectively treats issues of conflict of interest and corruption that may arise in operations.

Code of Conduct

T-HT's Code of Conduct sets out clear standards of business conduct based on the highest ethical principles. The Group has adopted internal policies with respect to gifts, an annual activity planning process has been put in place, based on (non-) compliance risk assessment employing a new method which enables early identification of non-compliant business conduct and adequate reaction.

Certification

In 2007, T-HT joined the UN Global Compact initiative, which advocates basic social values based on 10 principles of responsible business operations. In 2010, T-HT Group regularly reported on the implementation of these principles, providing updates on initiatives in the field of human and labor rights and the implementation of anti-corruption measures.
In 2008, T-HT Group received a "Prime" company rating by Oekom Research, an agency focusing on research and analysis of corporate responsibility and sustainable development.
In 2010, T-HT was granted membership, for a second consecutive year, in the CEERIUS Sustainability Index for 2011, 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.

We take responsibility

The Group's objective is to be the leader in the field of corporate responsibility, therefore we are committed to acting sustainably and responsibly along the entire value chain.
We take responsibility to society and to the environment, to our employees, customers, suppliers.

Responsibility to society

T-HT Group has long engaged with educational, cultural and scientific institutions and non-governmental organizations, especially with those that offer support to groups such as people with disabilities, the socially deprived and organizations that promote the values of a civil society.

The Group conducts most of these projects on a long-term basis, as stability of funding promotes greater efficiency. Moreover, company employees are personally involved in many of the projects, providing direct participation by the company and its staff.

UNICEF

The Group is the first UNICEF partner in Croatia; the six-year partnership was reinforced in 2010 by the "Stop Violence Among Children" project. This project, has been joined by more than 280 schools in Croatia and results to date indicate the project has had a direct impact on the reduction of classroom violence. As well as making a corporate donation, T-HT also dispatched donation slips along with customers' bills, thereby enabling its service users to directly contribute to this valuable UNICEF project.

"Together We Are Stronger"

The "Together We Are Stronger" donation project continued for the fifth consecutive year. Again, T-HT employees played a key role by making proposals, selecting and final identification of humanitarian projects to receive donations. From 198 applications submitted throughout Croatia, a total of 27 projects were selected and awarded funding totaling HRK 1 million in 2010.
Associations and institutions that received this funding included medical institutions, those working with the disabled persons, old people and children.

Emergency Medical Services

Rather than purchase holiday gifts, T–HT donated funds to good causes in 2010 again. The Group first supported the Emergency Medical Service (EMS) in 2006, prompted by the idea that quick and efficient communication is crucial when it comes to rescuing human lives. T-HT Group selected the EMS owing to its great importance across the entire spectrum of society and individuals irrespective of age, gender, location or social status. In 2010 funds totaling HRK 800,000 were donated to the County Hospital Čakovec, the Emergency Medical Service Pazin, and to health centres in Požega, Slavonia County and on the island of Korčula. Since 2006, T-HT Group has now donated a total of almost HRK 11 million to EMS institutions and health centres throughout Croatia.

060 lines - supporting humanitarian campaigns

Since 2001, T-HT has supported a large number of campaigns by providing humanitarian telephone lines which enable the general public to join and support the campaign. In 2010, campaigns by organizations including the Sve za nju Association, the Epilepsy Center, the O-Zona Association, the Zajednički put Association and the Nada Vrbovec Association, as well as other humanitarian initiatives, all benefited from this support. In each case, T-HT waived its profit and more than HRK 4 million was collected for charity.

tportal donation to Autonomous Women's House

The threat of closure of the largest safe shelter for abused women in Zagreb made some of the biggest names in Croatia's music scene use their talents to raise funds for the Autonomous Women's House Zagreb (Autonomna ženska kuća Zagreb – AŽKZ). tportal joined their campaign, donating 100,000 HRK and calling upon its fans on social networks to support the initiative.

Knowledge Society

"Growing through knowledge"

The third T-HT sponsored "Growing through knowledge" Conference was held in September 2010 in Zagreb. By presenting some of the most inspiring global thinkers, the company wishes to provide a gift of knowledge to society, to academia and the business community, to employees, customers and media. Guest lecturers in 2010. included Professor Jeremy Rifkin, the renowned commentator on social trends and founder and chairman of the Foundation on Economic Trends, and Dr. Nicholas Christakis, physician and expert on research of personal and internet social networks and their impact on attitudes, behavior and emotions.

Support of professional conferences

T-HT's focus on development of the Knowledge Society is also reflected in the support of numerous academic and scientific conferences and seminars such as: WinDays 2010 - Croatia's biggest technology conference, the MIPRO conference, the Vidi Web Top 100 competition, the Combis conference, the international Information Technology Interfaces ITI 2010 conference, the Cisco conference, Imagine Cup 2010 project, Telekom Arena and a number of other events related to the telecoms sector and its communities.
T-HT also funds MedILS (Mediterranean Institute for Life Sciences) for seminar and training purposes, for a fifth year.
In addition to funding, T-HT provided assistance to a range of national and international forums and conferences by making available its infrastructure, providing technical support and equipment.

Cooperation with academia

T-HT's long-term cooperation with the Faculty of Electrical Engineering and Computing was initiated in November 2006 with the signing of the Frame Contract on Cooperation in Science, Research and Development Activities, aiming to promote transfer of know-how and ideas between science and economy. In addition to the Faculty of Electrical Engineering and Computing (FER), the Group works in close cooperation with the Faculty of Law in Zagreb, and further collaborations are planned with other universities that may well offer potential pools of talented personnel in the future.

T-HT Scholarship

The Group expanded a project initiated by T-Mobile and announced the HT Scholarship competition. Drawn from candidates from the Faculty of Electrical Engineering and Computing in Zagreb, the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split and the Faculty of Electrical Engineering in Osijek, 11 undergraduates were selected who excel in their chosen subjects and also display interest and participation in a wide range of subjects and activities.

Supporting Croatian Informatics Clubs Association

T-HT has been engaged in continuous cooperation with the Croatian Informatics Clubs Association (HSIN) since 1997, supporting the organization of

summer and winter camps in informatics as well as national competitions and the Informatics Festival.
In addition to regular cooperation, in 2010 T-HT also gave presents to students who had won medals at the Central European Olympiad in Informatics and the International Olympiad in Informatics.

Art and culture

Museum of Contemporary Art

Hrvatski Telekom has been the general partner of the Museum of Contemporary Art (MSU) since 2007. This partnership, upheld in 2010 as well, continued to promote technology in the service of art, and saw the realization of the annual award for the best work of Croatian modern art. Apart from financial support, T-HT is also supporting the Museum by its telecommunications services.

T-HTnagrada@msu.hr

The “T-HTnagrada@msu.hr” competition was held the third year in a row. The T-HTnagrada@msu.hr award is positioned as one of the most prestigious annual art awards in Croatia. The number of entries in 2010 exceeded those from previous years; traditionally, the best works of art were picked by an international jury. This year again, the awarded works were made part of the T-HT collection and exhibited in the new building of the Museum of Contemporary Art.

Theatre events

T-HT continues its longstanding tradition of sponsoring Croatian National Theatres in Osijek, Split, Rijeka and Varaždin, as well as the City Drama Theatre Gavella in Zagreb. Sponsorship of the City of Varaždin incorporated the following events: Špancirfest (the Strollers’ Festival) and Varaždin Baroque Evenings.
T-HT also supported Rijeka Summer Nights.

KulTurist

For the sixth successive year, T-Com continued to popularize and support cultural events in Croatia through the “KulTurist” project. The 2010 season started with the ZagrebDox international documentary film festival and also included the Pula Film Festival, the Vukovar Film Festival, the Split Summer and the Ulysses Theatre shows.

roman@tportal.hr Prize

For the third successive year, the Internet portal tportal.hr announced a competition for the “roman@tportal.hr” literary prize, worth 100,000 Kuna. 53 entries were received, and the first prize went to Sibila Petlevski for her novel “Vrijeme laži” (The Time of Lies).

Music

T-Mobile INmusic festival

For the second consecutive year, T-Mobile supported the INmusic festival, Croatia’s biggest open-air festival featuring more than 40 international and national acts across six stages, among others, performances by Massive Attack, LCD Soundsystem, Billy Idol, Morcheeba, Alice in Chains, The Flaming Lips, Flogging Molly and many others. The T-Mobile INmusic festival was listed as one of 20 best European festivals by the English daily The Times.

Minival

By the Minival project, T-Mobile is supporting talented demo bands for the fourth successive season. Minival featured 29 acts performing at eleven concerts all over Croatia. The winner was given the opportunity to shoot a professional video clip, to have the video clip aired on MTV and to participate in the T-Mobile INmusic festival.

Sport

HOO – Croatian Olympic Committee

T-HT Group has continued its longstanding cooperation with the Croatian Olympic Committee, as general sponsor, allying the values of T-HT with the Olympic traditions of fair competition and continuously striving to achieve excellence.
T-HT is also a long-standing sponsor of the Youth Sports Games, which take place across more than 10 cities. These events feature a range of sports and send a message against drugs, alcohol and violence, promoting a healthy lifestyle.

I Love FooTball

In 2010, T-Com supported the "I Love FooTball" project, to foster an environment for the development of football as the most popular team sport in Croatia. Within this project, T-Com sponsors the Croatian National Football Team, alongside its long-standing sponsorship of the First Croatian Football League.

Sailing

In addition to its sponsorship of the prestigious Easter Regatta, T-Mobile is also the personal sponsor of yachtsman Ivan Kljaković Gašpić – affectionately known as Bambi - who won a number of medals in 2010 in the Finn class at the European Championship in Split and at World Cup events in Palma de Mallorca, Hyeres, Medemblik and Kiel.

Responsibility to employees

One of T-HT's primary principles is to continually delight its customers by quality products and services. The fulfillment of this target requires committed employees, who permanently improve their knowledge and raise their level of professionalism in order to be at best service for customers.
The company is developing a working environment and conditions in which the employees are motivated to optimally realize their potential, at the same time developing their personal competitiveness. This is the way we have committed to, which enables us not only to attract and retain best people, but also achieve good business results in an ethical manner.

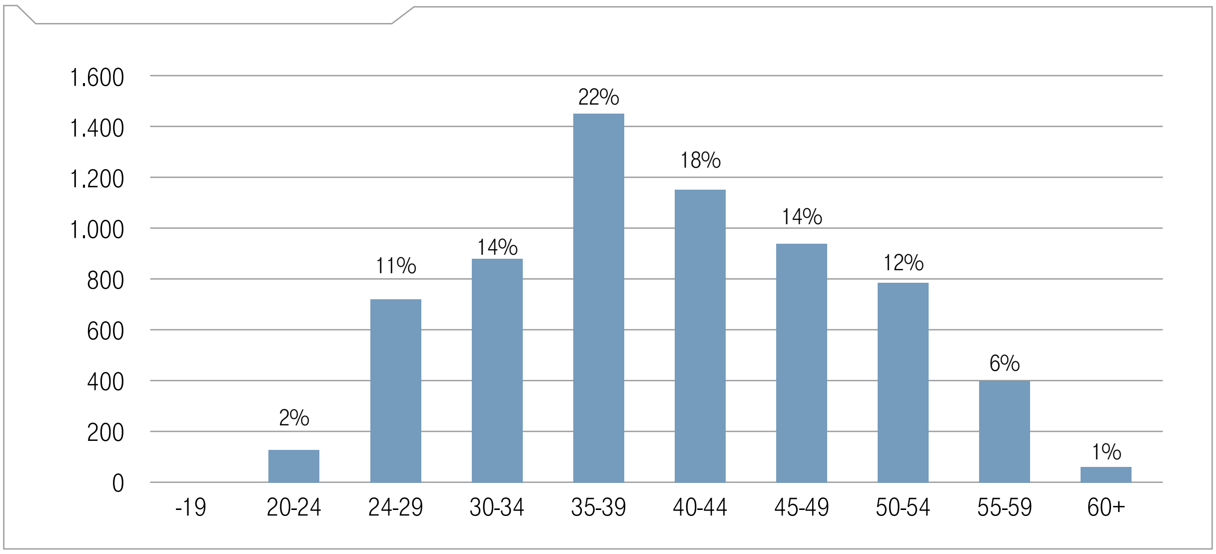
Integration of operations and new synergies

After the T-Mobile merger at the beginning of the year, new managers were appointed to lead the restructured divisions. A Leadership Development Program was developed and implemented with a goal to build and upgrade basic management skills necessary for day-to-day work and to ensure the standard level of managerial competencies in the company. Management assessment and 360 degree feedback were introduced and implemented in the last quarter of 2010 in order to support the development of T-HT's management in line with its long term strategy and market demands. In May 2010, T-HT finalized the acquisition of Combis, Croatia's leading system integrator, which employs 284 workers. At the end of the year the Group had 6,322 employees, compared to 6,044 in 2009. *

Social partnership and new Collective Agreement

2010 was a year of social partnership, with no redundancy programs initiated. In December 2010

Age structure in T-HT, end of 2010



* Full-time equivalent

employer and trade union representatives signed a new Collective Agreement for the years 2011 and 2012. The Agreement was signed after several months of negotiations which were conducted in a constructive atmosphere and under a climate of mutual respect between the negotiating parties. The new Collective Agreement is reflecting the continuously high level of workers' rights at T-HT, representing business operation management in line with future requirements and market development in Croatia. In the negotiations, the emphasis was on salary system upgrading and performance-related remuneration.

Promotion of service culture in the company

T-HT continues to foster a strong service culture in the company by recognizing and rewarding exceptional service provided by its employees under the quarterly Service Role Model Award.

Career development

In 2010, T-HT's expert career development initiative continued and a systematic expert development program was introduced for the most complex expert positions in all functional areas (RasT career management program). T-HT also launched a new development activity focused on internal knowledge sharing through lectures (Knowledge at Thursday) providing employees with the possibility not only to participate in the lecture, but also to watch a recording of it on the T-HT Intranet. Employees may also access specially created educational content through the e-learning initiative.

Work-life balance

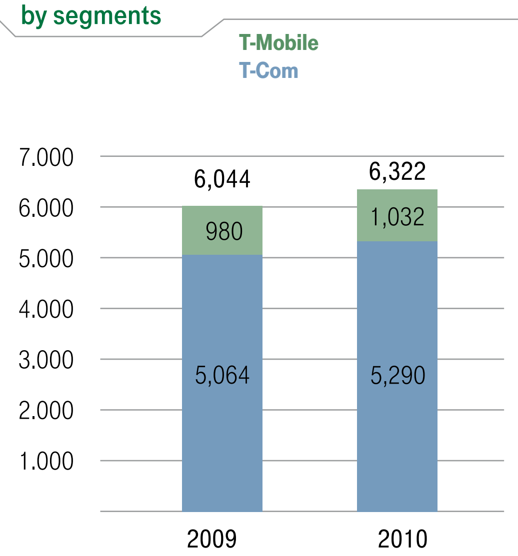
T-HT recognizes the importance of work-life balance through its care for employees, by providing sports and recreation, promoting health, preventing illness and offering parental support. Human Resources are continuously developing diverse programs concerning everyday matters important to our employees, such as health, personal finance etc.

The opinion of our employees counts

Throughout the year, the quarterly spirit@telekom questionnaire takes the "pulse" of employee sentiment

Full time employees by education

Number of employees by segments



and provides the Group with valuable feedback. In 2010 an extensive Employee Satisfaction Survey was conducted, which gave a detailed picture of the main issues that influence the employees' satisfaction and thus their commitment to work. Within the scope of the survey, a comprehensive look was taken at health issues, in order to identify areas for improvement and to have actions taken in order to create a better working environment.

Employer of first choice for graduates

According to the independent Moj Posao ("My Job") Portal, T-HT has been declared employer of first choice for five consecutive years; in 2010, T-HT was recognized as employer of first choice for graduates.

Responsibility to customers

Customer care

Customer care and customer satisfaction are the key focus of the T-HT Contact Centre. The Centre's agents are available 24/7 for questions or support and may be contacted by phone, e-mail, mail or fax. The Centre plays a crucial role in maintaining good relationship with customers, providing information and selling products and services tailored to each customer's individual needs.

Monitoring of customer satisfaction

In order to fully understand customers' needs and meet their expectations, T-HT is continuously monitoring customer satisfaction and loyalty, employing TRI*M methodology. Systematic and continuous monitoring of customer satisfaction is T-HT's control method used for evaluating efficiency of the business processes within the company and for identifying which parts of relevant processes need to be changed or improved in order to meet or even exceed customer expectations

Responsible approach to customers

T-HT takes a responsible approach to adjusting services to the various needs of the customers, as evidenced by discounts and access to shopping for disabled people, special packages for customers on low incomes, services for young people, discounts for disabled war veterans, the MAXtv parental lock to protect minors from unsuitable material, protection for internet users and a range of billing options including Web billing, voice billing and e-billing.
Also, The Company complies with the Code of Advertising Standards of Croatia.

Advanced technology available to all

The company continues to develop its fixed-line network, whilst investing in mobile infrastructure – improving the 2G and 3G network to expand the availability of broadband services. In 2010, T-HT started testing advanced technologies such as LTE that will enable faster data transmission, convergence and the use of advanced applications on mobile devices. The Group continues to develop infrastructure and platforms for new nationwide services, such as the platform for MAXtv via satellite. By launching MAXtv via satellite, the most popular digital TV package has been made available to users in the whole territory of Croatia, including small, rural areas or distant islands.

Responsibility to suppliers

T-HT follows a sustainable approach in the procurement products and services within the entire Group. The Group aims to obtain the best value for money invested, while acknowledging factors such as quality, availability, functionality, environmental impact of the product and/or service, social aspects, labor conditions and human rights.
T-HT's sustainable procurement program includes supply chain management with regard to social and ecological risks and the potential for long-term benefit, selection of suppliers according to common and clearly defined minimum standards (including the Social Charter of the Convention of the International Labor Organization), and regular checks to ensure compliance.

Supplier Self-Assessment Questionnaire

The sustainable business questionnaire to be completed by T-HT's suppliers provides a good picture of their sustainable business policy as applied in their everyday operations and clarifies whether the supplier complies with the basic principles of business ethics.

Responsibility to environment

T-HT Group has for some years been systematically pursuing environmental protection strategies, striving to reduce its impact on the environment in the interest of future generations. The Group's fosters a proactive approach to environmental protection. Statutory regulations are deemed to be minimum requirements which the Group often exceeds by far. The Group's procurement policy is oriented towards environmental protection, and these goals influence the approach to our contractual partners. We strive to find solutions for our products and services which will save energy and natural resources. The Group's employees are actively involved in measures of environmental protection; we keep the general public and interested parties informed about our activities, promoting a constructive dialog.

Reforestation of fire-damaged land

T-HT Group's contributions to environmental protection and ecology continued in 2010 by direct investment in the reforestation of fire-damaged land. This donation project's outcome: 20 hectares of forest area destroyed by summer fires in recent years were re-planted in areas managed by the forest offices of Benkovac, Hvar, Makarska and Metković. The project was launched in June, at the beginning of the high fire-risk season, to raise awareness of fire prevention.

Certifications for environment

In 2010, T-HT Group underwent an independent assessment that resulted in the Group being certified under the ISO 14001 standard for environmental management in June - the first telecommunications operator in Croatia to receive this recognition. T-HT Group also received environmental certification from IQNet (International Quality Network), following in the footsteps of T-Mobile, which was certified in 2002.
T-HT is a signatory to the United Nations Global Compact, which advocates principles of ethical business, including environmental protection.
It is also a member of the European Telecommunications Network Operators' Association (ETNO) and a signatory to the Charter on Environmental Protection and to the Sustainable Development Charter.

Environmental protection efforts

In 2010, T-HT stepped up its environmental protection efforts, paying particular attention to the reduction of electric power consumption through the optimization of power supply and air conditioning systems and the most efficient use of IT resources and office equipment. During the year, T-HT increased the number of renewable energy sources it uses and replaced some of its fleet with vehicles offering lower CO_2/km emissions and gas-driven cars.
To promote climate and ozone layer protection, T-HT replaced its older-generation air conditioning systems with new and more efficient ones that do not use substances harmful to the environment and replaced several boiler rooms with systems using ecologically friendly gas.
T-HT also embarked on the refurbishment of properties it owns, applying principles of Green Building.
At the same time, the Group introduced training sessions in environmental protection for its employees to foster ecologically responsible behavior.

The ecologically sound disposal of used mobile phones

In May and June 2010, T-HT organized the ecologically sound disposal of used mobile phones and more than 20,000 mobile devices, batteries and other accessories were collected. T-HT has assisted in the disposal of more than 100,000 mobile phones since it started this initiative in 2005.

E-business

Also in 2010, aiming at a more efficient resources consumption management, T-HT focused particularly on promoting e-business and offered its customers web bills (online itemized billing) and e-bills.

Corporate responsibility in subsidiaries

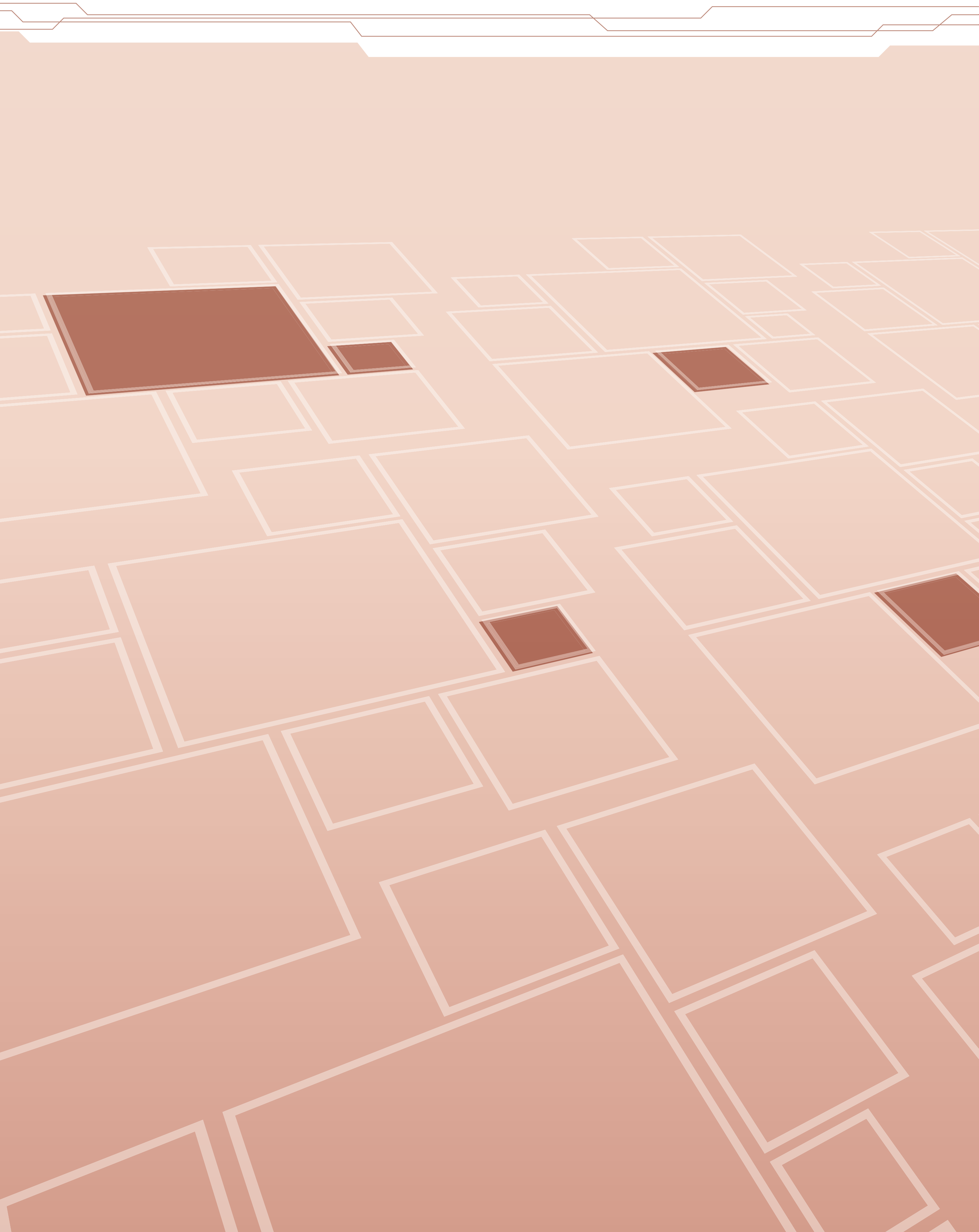
Combis

Combis pays much attention to the welfare of its customers and employees as well as the broader social environment, with a particular focus on education, sports and art.

In the sphere of education, Combis supported the Slavko Kolar and Nikola Kvaternik elementary schools through the donation of IT equipment, whilst in the arts, Combis supported two international exhibitions at the Galženica Gallery in Velika Gorica.
In the world of sport, Combis provided support at grassroots level to the Mladost Croatian Academic Basketball Club (HAKK Mladost) and the Zagreb Snowflakes Synchronized Skating Club. The company also sponsored the 2010 Hanžeković Memorial Zagreb International Athletics Meeting.
In the field of medicine, Combis donated IT equipment and technical support to the 3rd Central European Congress of Surgery held in Dubrovnik. The company also provided financial support to the Croatian Nurses Association (HUMS).
At industry level, the company's sponsorship activities included Cisco Partner Conferences, the Windays Conference, the IBM Forum and Oracle - The Information Age.
For the fourth consecutive year, the Combis Conference gathered experts from the entire region under the topic "Research. Innovation. ICT", with emphasis on the latest technological trends that can generate new business opportunities and success.

Iskon

Throughout 2010, Iskon has supported several socially relevant projects that fit the company's corporate culture and overall business strategy. The most high profile of these was the Motovun Film Festival, now in its 12th year, where Iskon was the official sponsor of telecommunications services and of the "Best Short Film" online award for the second year.
Also, Iskon was among the first to support the extraordinary Street Art Museum Project, which involved repainting Branimir Street in Zagreb to revive street art in Croatia.
Iskon is also collaborating with the newly opened Museum of Broken Relationships, the first private museum in Zagreb which, after successful exhibitions in the USA, Europe and Africa, now has its own exhibition space in the heart of Zagreb.
In 2010, Iskon sponsored the Atlantis Festival for the first time. The festival, launched four years ago in Split, features an array of cultural, sports and music events particularly targeting mostly young people.
For many years, Iskon has been supporting the World Theater Festival; this year it also sponsored the Nu:Write Festival, which attracted to Zagreb a number of talented British theatre ensembles and exponents of New British Drama.
As telecoms services sponsor, Iskon was supporting concerts by Metallica and Seal in 2010, as well as the conceptual GaGaism exhibition on occasion of the Lady Gaga concert in Zagreb.
In the world of sports, Iskon is a long-standing partner of the Croatian National Football Team; it sponsors the Uvijek vjerni Fan Club, as well as the HASTK Mladost Iskon table tennis club. In 2010, for the second consecutive year, Iskon was the official telecom sponsor at the ATP Zagreb Indoors and the Zagreb Open tennis tournaments.



Financial Review 2010

T-HT Group Financial Results

Analysis of Segments Results

Group Financial Performance

Revenue

Throughout 2010, Group revenue continued to be affected by the recession and the special taxation measures adopted in response. Some recessionary effects that were first apparent in 2009 have taken time to impact the Group's business – for example, an increase tendency towards saving and an increased tightening of consumer spending. Although the Group benefited from a eight-month contribution of HRK 232 million from Combis (classed as Miscellaneous), total revenue fell 1.7% to HRK 8,375 million (2009: HRK 8,517 million).

Excluding the contribution of Combis and the impact of the 6% tax on mobile services, Group revenue would have fallen by 3.2%. This is a creditable result, given estimates of a 1.5% fall in GDP across the whole of 2010, the lagging effects mentioned above and intensified competition in the industry.
T-Com unconsolidated revenue fell by 1.2% or HRK 63 million to HRK 4,981 million (2009: HRK 5,044 million), including the first-time contribution of HRK 232 million from Combis. As with previous periods, the decline expected in fixed telephony, down 8.4% to HRK 2,296 million, was to some extent offset by a strong increase in revenue from internet services, up 19.1% to HRK 1,368 million.

At T-Mobile, unconsolidated revenue fell 9.1% to HRK 3,807 (2009: HRK 4,189 million), with the special tax on mobile services a significant drain on revenue, to the amount of HRK 163.5 million in 2010 (Aug-Dec 2009: HRK 67.5 million).

Operating Expenses

Overall operating expenses fell by 2.9% or HRK 150 million to HRK 5,054 million (2009: HRK 5,204 million) even after consolidation of Combis' expenses, as a result of tight cost control following the reorganization of the Group, as well as decreased costs related to lower usage and reduced interconnection fees.

In addition, effective from 1 September 2010, the Company changed the accounting treatment of Customer Premises Equipment (CPE), namely IAD modems, set-top boxes and other fixed-line terminal equipment, such that this equipment is now treated as being owned by the Company. Previously, this equipment was treated as merchandise that was owned by customers.
The reason for this change is to increase operational efficiency by enabling higher rates of reuse of CPE, where appropriate, and to enable more efficient upgrades of customer equipment. Customers will benefit from having ownership and responsibility for maintenance of their equipment taken on by T-HT.
The accounting impact of this development is to change from reporting those costs as operating expenses (costs of merchandise) to recognizing them as capital expenditures, with corresponding additions to fixed assets. The amount capitalized in the period from 1 September 2010 to 31 December 2010 was approximately HRK 75 million.

Material expenses increased by just 0.3% to HRK 2,327 million, with a slight decrease in Merchandise costs, down 0.8% to HRK 1,046 million, being offset by an increase in Services, up 1.2% to HRK 1,281 million, mostly as a result of higher copyright fees payable as the Group's IPTV subscriber base expands.

The acquisition of Combis added 284 employees as at December 2010, with the Group's year-end employee numbers rising from 6,044 in December 2009 to 6,322 in December 2010. Despite this increase in staff numbers, total employee benefits fell by 8.0% to HRK 1,198 million as a result of lower redundancy provisions being booked in 2010 (HRK 31 million vs HRK 152 million in 2009). Excluding redundancy costs, total employee costs rose by 1.5%. (fall of 2.3% excluding Combis).
The write-down of assets increased by 3.4% to HRK 114 million, while depreciation and amortization increased by 1.0% to HRK 1,415 million, mainly as a result of a HRK 65 million impairment of non-current assets.

T-HT Group Profitability

As a result of falling revenue and the increases in some expenses as explained above, EBITDA before exceptional items of HRK 32 million fell by 4.3% to

HRK 3,694 million at a margin of 44.1% (2009: HRK 3,859 million, 45.3%). Operating profit (EBIT) fell by 2.0% to HRK 2,247 million (2009: HRK 2,294 million). Net profit for 2010 was 9.5% lower at HRK 1,831 million (2009: HRK 2,023 million), mainly as a result of EBIT development, significantly lower net financial income caused by lower interest rates.

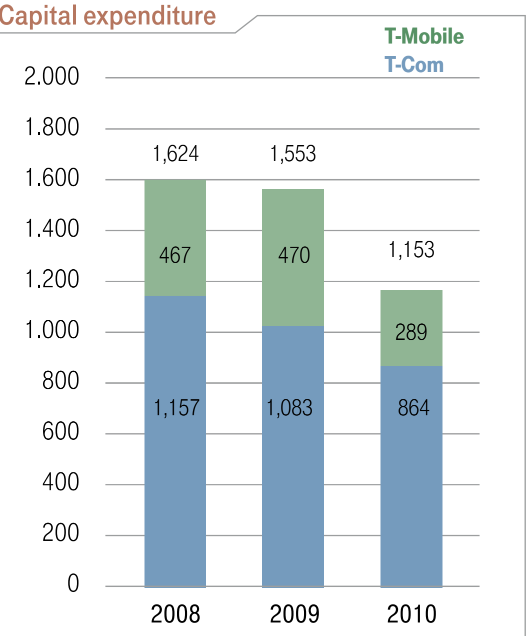
Balance Sheet

T-HT's balance sheet remains strong with total assets of HRK 13,585 million down 6.1%, mainly as a result of a generous dividend payment in May 2010 totaling HRK 2,788 million.
Total non-current assets decreased from HRK 8,175 million at 31 December 2009 to HRK 8,008 million at 31 December 2010 due to the decreased investment in broadband access and the core infrastructure.
The decrease in total current assets from HRK 6,297 million at 31 December 2009 to HRK 5,577 million at 31 December 2010, is mostly related to the dividend payment. The decrease included lower inventories of HRK 216 million (2009: HRK 255 million) resulting from improved inventory management, the write off of obsolete equipment and the new accounting treatment of CPE equipment.
Total issued capital and reserves decreased to HRK 11,054 million (2009: HRK 12,012 million), because the dividend payment in May 2010 exceeded the net profit achieved in 2010.
At 31 December 2010, cash and cash equivalents stood at HRK 3,282 million, compared with HRK 4,195 million at 31 December 2009.

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. Despite lower profitability, cash flow from operations increased by 19.3% to HRK 3,268 million (2009: HRK 2,738 million), mostly as a result of positive movements in working capital achieved through strong financial management, as well as the absence of a one-time negative effect in 2009 related to a change in billing method for fixed voice on December bills.

Capital expenditure



Capital Expenditure

Capital expenditure was down 25.8% to HRK 1,153 million (2009: HRK 1,553 million). As previously stated, the Group is delaying investments in modern fiber infrastructure until the regulatory agency HAKOM develops a regulatory and pricing regime that the Group considers satisfactory and fair.
In the absence of clarity on the issue of fiber access, the Group has continued with modernization of the current fixed core and aggregation network, while in the mobile network it is continuing with investments in radio access and core network transformation in order to improve mobile broadband access. Cable infrastructure deployments were lower than anticipated owing to delays in obtaining local permits, while some cellular base station deployments were also delayed.
Following the merger of T-Com and T-Mobile, the Group has reviewed and optimized the scope of major IT projects in order to achieve the most cost-effective benefits going forward.

Analysis of segment results

As previously indicated, T-HT will present its 2010 financial results to reflect its previous structure comprising two distinct businesses segments:

- T-Mobile, which provided mobile telephony services including wholesale, Internet and mobile data services.
- T-Com, which provided fixed telephony, wholesale services, Internet and data services. It encompasses Hrvatski Telekom d.d., Iskon Internet d.o.o., acquired in May 2006 and Combis d.o.o. acquired in May 2010.

Since 1 January 2010, T-HT Group has been organized along Residential and Business lines with separate divisions for each. 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.

T-Mobile highlights

T-Mobile remains the leading mobile operator in the Croatian market, where mobile penetration increased to 143.9% in 2010. Demand for mobile internet continues to increase with new laptop/netbook devices in high demand, as well as an increase in handsets and tablet computers offering access to the internet through a wide variety of applications.

The mobile market in Croatia continues to be affected by the recession and special taxes imposed on mobile services, as well as competitive pressures and regulatory impositions such as lower termination rates (as discussed earlier in the Regulatory section).

- Revenue down 9.1% to HRK 3,807 (2009: HRK 4,189 million)
- Total subscribers up 1.5% to 2,901,222 (2009: 2,858,858)
- Strong subscriber recovery in Q4 2010
- Postpaid subscribers break through 1 million, up 9.0% on 2009
- Prepaid subscribers down 2.1%
- Launch of bonbon pre-paid brand to reach younger consumers

T-Mobile subscriber numbers increased sharply in Q4 2010, helped by an increase in prepaid customers following the successful launch of the new bonbon prepaid brand. T-Mobile ended the year with more than 2.9 million subscribers, up 1.5% on 2009 and representing a market share of about 45.5% by SIM.

T-Mobile continued its success in increasing postpaid accounts, with special and targeted offers helping to increase postpaid subscriber numbers through the million mark to 1,003,052. Postpaid now makes up 34.6% of T-Mobile's accounts, up from 32.2% at the end of 2009.

Across the whole of 2010, prepaid numbers fell 2.1% to 1.9 million, mostly because of reduced consumer spending and lower duplication of personal handsets. However, the launch of the bonbon brand in October and successful customer acquisition campaigns elsewhere in the market drove a 6% increase in prepaid accounts in Q4. The brand will operate independently and focus on the younger professional market.

Postpaid churn increased from 0.8% in 2009 to 1.0% in 2010, while prepaid churn increased from 2.3% to 3.0%, reflecting the decrease in SIM-only promotions, increased competition and recessionary pressures driving some users to abandon prepaid phones altogether. SAC per gross add decreased by 19.6% to HRK 159.9 because of improved efficiency in handset sales.

Minutes of Use (MOU) increased by 2.3% to 115 minutes (2009: 112 minutes). Compared to the 103.8 minutes recorded in Q1 2010, MOU recovered well in the rest of the year as a result of attractive new promotions and the successful introduction of new tariffs.

Revenue

The recession and its associated taxation measures affected T-Mobile throughout 2010, with revenue falling 9.1% to HRK 3,807 million (2009: HRK 4,189 million). Of this decline, HRK 163.5 million can be attributed to the 6% tax on mobile services, which was deducted directly from revenue across the whole of 2010 (Aug-Dec 2009: HRK 67.5 million). Competitive pressures and a cut in mobile termination rates at the end of 2009 also contributed to the decline.

Postpaid revenue fell by 6.9% to HRK 2,300 million (2009: HRK 2,470 million), while prepaid revenue fell by 11.3% to HRK 1,093 million (2009: HRK 1,232 million). Other mobile revenue decreased by 15.1% to HRK 414 million mainly due to decreased national roaming revenue.

Profitability

T-Mobile operating expenses fell by 6.3% to HRK 2,326 million, mostly as a consequence of lower service costs including lower domestic interconnection rates resulting from the reduction in termination prices. In addition, T-Mobile had lower mobile merchandise costs following the integration of T-Com and T-Mobile.

EBITDA (before HRK 2 million of exceptional items) fell by 12.5% to HRK 1,610 million (2009: HRK 1,840 million), with EBIT falling 14.8% to HRK 1,143 million (2009: HRK 1,341 million).

Capital expenditure

T-Mobile's capital expenditure fell by 38.5% to HRK 289 million (2009: HRK 470 million) for the reasons outlined earlier, notably the delay of internal IT projects and delays in obtaining permits for base station deployments. The capex to revenue ratio fell from 11.2% to 7.6%.

T-Com highlights

T-Com remains the leader in all segments, with broadband and IPTV growing strongly and fixed-line telephony declining at a fairly predictable rate.

- 1.44 million mainlines served, down 3.6%
- ADSL lines up 13.4% to 629,228
- Internet revenue up 19.1% to HRK 1,368 million
- IPTV customers up 26.1% to 297,496
- MAXtv launched on satellite in December
- New interconnect charges as of 1 Jan 2011 (as discussed earlier in the Regulatory section)

Revenue

Overall, T-Com revenue fell by 1.2% to HRK 4,981 million (2009: HRK 5,044 million), with a HRK 232 million contribution from Combis and a 19.1% growth in internet revenue helping to offset revenue falls of 8.4% in fixed-line telephony, 11.2% in wholesale and 17.7% in data services.

Fixed-line telephony

The decline in fixed-line telephony remains steady, with 3.6% fewer lines served at the end of 2010 and total mainlines connected of 1,437,579 (2009: 1,491,622). Revenue from fixed-line telephony fell by 8.4% to HRK 2,296 million (2009: HRK 2,506 million) and the contribution of fixed telephony has fallen to 46.1% of T-Com revenue, against 49.7% last year. As with previous periods, the decline is the result of increased competition and fixed-to-mobile substitution.

Internet

Internet revenue continues to grow strongly, up 19.1% to HRK 1,368 million (2009: HRK 1,149 million) of which Iskon contributed HRK 165 million (2009: HRK 123 million). Internet revenue now contributes 27.5% of T-Com revenue, compared with 22.8% in last year. The continuing increase reflects the rising use of broadband and the growth of new services such as IPTV.

ADSL mainlines increased by 13.4% to 629,228, with more than 29,000 new subscribers in Q4 2010. The increase was driven by new promotions encouraging customers to sign 12 or 24-month contracts and incentivizing them to recommend friends and family. ADSL ARPA rose 1.7% to HRK 127 (2009: HRK 125), mostly because of higher number of flat-traffic subscriptions and the expiration of promotional activities.

Growth in IPTV subscribers (including MAXtv and Iskon's own IPTV service) remained strong, up 26.1% to 297,496 (2009: 235,980), driven by continuing promotions and attractive content packages including new films and HBO programming. In December, MAXtv was launched on satellite, making it available to any home with a satellite receiver.

During 2010, T-HT continued to improve its IPTV service by adding new channels and launching a Sports package with the most popular international sport channels and exclusive sporting content.

Wholesale

Wholesale revenue fell by 11.2% to HRK 931 million and now makes up 18.7% of T-Com revenue (2009: HRK 1,049 million, 20.8%). The decline resulted from lower international traffic to mobiles and national hubbing services, as well as a cut in termination, origination and DTI revenue following regulatory decisions. However, there was higher revenue from providing infrastructure services for other fixed operators, international GIA service and international hubbing traffic.

Data

Data revenue fell 17.7% to HRK 150 million and represents just 3.0% of T-Com revenue (2009: HRK 183 million, 3.6%). The fall was in line with T-HT's migration of data customers to new IP-based services.

Miscellaneous

For the first time, revenue from Combis contributed to T-Com's performance and has been classified under Miscellaneous revenue. The eight-month contribution of HRK 232 million offset the loss of revenue and commissions normally booked under Miscellaneous revenue that resulted from the reorganization of T-Com and T-Mobile's retail sales outlets.

Profitability

The fall in T-Com revenue was offset to some degree by 8.1% reduction in operating expenses. EBITDA before exceptional items increased by 3.2% to HRK 2,084 million (2009: HRK 2,019 million). EBIT increased 15.9% to HRK 1,103 million due to significantly lower exceptional items (HRK 29 million 2010, compared with HRK 159 million in 2009).

Capital expenditure

Capital expenditure fell by 20.2% to HRK 864 million, for the reasons already outlined above. T-Com's capex/revenue ratio stood at 17.3%, compared with 21.5% in 2009.

Consolidated financial statements 31 December 2010

General information
Auditors' report
Consolidated income statement
Consolidated balance sheet
Consolidated cash flow statement
Consolidated statement of recognised income and expense
Notes to the consolidated financial statements

General information

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.

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 7 February 2011.

Hrvatski Telekom d.d.
Savska cesta 32
10000 Zagreb
Republic of Croatia

7 February 2011

On behalf of the Group,

Ivica Mudrinić
President of the Management Board

Independent Auditor's Report

To the Shareholders of Hrvatski Telekom d.d.:

We have audited the accompanying consolidated financial statements ("the financial statements") of Hrvatski Telekom d.d. ("HT d.d.", "HT" or the "Parent Company") and its subsidiaries (together, the "Group") which comprise a Consolidated statement of financial position as at 31 December 2010, 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 information (as set out on pages 75 to 124).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the 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 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to certain notes to the financial statements which describe the uncertainty related to the outcome of the following matters which HT is involved in:

Ownership over and right to use ducts and claims by local authorities

As explained in more detail in Note 12, part of HT's assets (including the ducts as part of infrastructure) does not have all the necessary documents (building, use permits, etc.) and a major part is not registered in the land registry. In addition, some claims of ownership over these assets have been made by local authorities, which is explained in more detail in Note 29 c). The outcome of these matters is uncertain and may have a material effect on HT.

Competition / Regulatory matters

As explained in more detail in Note 29 a), there have been several complaints made by HT's competitors to the Croatian Competition Agency and the Croatian Post and Electronic Communications Agency (HAKOM) in regard to HT's alleged abuse of its dominant position or alleged violation of regulatory obligations, and there were several supervisions performed by HAKOM on HT in accordance with HAKOM's decisions and regulatory obligations. The outcome of these matters is uncertain and may have a material effect on HT.

Consumer Act claims

As explained in more detail in Note 29 b), HT is involved in legal proceedings related to 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 HT together with the consumer protection association. The outcome of these matters is uncertain and may have a material effect on HT.

No adjustments have been made to the consolidated financial statements relating to any of these matters. Our opinion is not qualified in respect of these matters.

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

Slaven Đuroković
Certified Accountant
and director

7 February 2011

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Notes	2010 HRK millions	2009 HRK millions
Rendering of services		8,147	8,414
Sale of goods		228	103
Revenue	4	8,375	8,517
Other operating income		237	213
Merchandise, material and energy expenses		(1,044)	(1,054)
Service expenses	5	(1,281)	(1,266)
Employee benefits expenses		(1,198)	(1,302)
Gross salaries		(904)	(868)
Taxes, contributions and other payroll costs		(258)	(266)
Redundancy expenses	7	(31)	(152)
Other long-term employee benefits	21	(5)	(16)
Work performed by the Group and capitalised		105	169
Depreciation and amortisation	6	(1,350)	(1,365)
Impairment of non-current assets	6	(65)	(36)
Write down of current assets		(114)	(110)
Other expenses	8	(1,419)	(1,472)
Total operating costs		(6,366)	(6,436)
Operating profit		2,246	2,294
Interest income		71	301
Financial expense		(55)	(41)
Income from investment in joint venture	14	11	12
Share of profit of associate	13	2	-
Profit before taxes		2,275	2,566
Taxation	9	(444)	(542)
Profit for the year		1,831	2,024
Valuation gain/(losses) from available for sale financial assets	15	2	(2)
Other		(3)	6
Other comprehensive income for the year, net of tax		(1)	4
Total comprehensive income for the year, net of tax		1,830	2,028
Earnings per share			
- basic and diluted, for profit for the year attributable to ordinary equity holders of the Company	10	HRK 22.36	HRK 24.72

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

Consolidated statement of financial position

As at 31 December 2010

	Notes	31 December 2010 HRK millions	31 December 2009 HRK millions
ASSETS			
Non-current assets			
Intangible assets	11	1,000	1,021
Goodwill		162	77
Property, plant and equipment	12	6,336	6,507
Investment in associate	13	2	2
Investment in joint venture	14	378	373
Available-for-sale investments	15	42	115
Non - current receivables		31	33
Deferred tax asset	9	57	46
Total non-current assets		8,008	8,174
Current assets			
Inventories	17	216	255
Trade and other receivables	18	1,479	1,466
Prepayments and accrued income		110	84
Income tax prepayments		25	39
Available-for-sale investments	15	463	257
Time deposits	19 b)	2	2
Cash and cash equivalents	19 a)	3,282	4,195
Total current assets		5,577	6,298
TOTAL ASSETS		13,585	14,472

	Notes	31 December 2010 HRK millions	31 December 2009 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued capital	24	8,189	8,189
Legal reserves	25	409	409
Fair value reserves		(1)	(3)
Retained earnings	26	2,457	3,417
Total issued capital and reserves		11,054	12,012
Non-current liabilities			
Provisions for legal cases and other provisions	23	101	116
Provisions for redundancy	7	-	113
Employee benefit obligations	21	192	192
Deferred income	22	74	103
Long-term loans and other long-term liabilities		43	25
Total non-current liabilities		410	549
Current liabilities			
Trade and other payables	20	1,529	1,459
Provisions for redundancy	7	133	7
Other accruals	27	196	183
Deferred income	22	250	261
Short-term borrowings and current portion of long-term loans		13	1
Total current liabilities		2,121	1,911
Total liabilities		2,531	2,460
TOTAL EQUITY AND LIABILITIES		13,585	14,472

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

Signed on behalf of HT Group on 7 February 2011:

Ivica Mudrinić

Jürgen P. Czapran

Consolidated statement of cash flows

For the period ended 31 December 2010

	Notes	2010 HRK millions	2009 HRK millions
Operating activities			
Net profit		1,831	2,024
Depreciation charges	6	1,350	1,365
Impairment loss of non-current assets	6	65	36
Income tax expense	9	444	542
Interest income		(8)	(262)
Gain on disposal of assets		2	-
Income from investment in joint venture	14	(11)	(12)
Decrease in inventories		39	59
Increase in receivables and prepayments		(48)	(205)
Increase/(decrease) in payables and accruals		73	(212)
Increase in employee benefit obligations	21	-	5
Interest paid		(9)	(6)
(Decrease)/increase in provisions		(2)	7
Value adjustment of inventories		1	-
Other non-cash items		5	(6)
Taxes paid		(466)	(599)
Net cash flows from operating activities		3,266	2,736
Investing activities			
Purchase of non-current assets	11,12	(1,153)	(1,553)
Proceeds from sale of non-current assets		12	24
Purchase of non-current financial assets		(108)	(75)
Proceeds from sale of non-current financial assets		-	2
Purchase of current financial assets		(699)	(310)
Proceeds from sale of current financial assets		698	319
Interest received		31	280
Dividend received		6	4
Acquisition of a subsidiary, net of cash acquired	3	(176)	-
Net cash flows used in investing activities		(1,389)	(1,309)
Financing activities			
Repayment of lease liability		(4)	(2)
Dividends paid	26	(2,788)	(2,456)
Net cash flows used in financing activities		(2,792)	(2,458)
Net decrease in cash and cash equivalents		(915)	(1,031)
Effect of F/X rate changes on cash and cash equivalents		2	3
Cash and cash equivalents at 1 January		4,195	5,223
Cash and cash equivalents at 31 December	19 a)	3,282	4,195

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 2010

	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 2009	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	-	-	(3)	6	4
Balance as at 31 December 2009	8,189	409	(1)	3,417	12,012
Paid dividends	-	-	-	(2,788)	(2,788)
Profit for the year	-	-	-	1,831	1,831
Other comprehensive income	-	-	(2)	(3)	(1)
Balance as at 31 December 2010	8,189	409	(1)	2,457	11,054

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 2010

1 Corporate information

Hrvatski Telekom d.d. ("HT d.d.", "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.

Pursuant to the decision of the General Assembly from 21 April 2010, the Company changed the name to Hrvatski Telekom d.d. Until then, the Company operated under the name HT - Hrvatske telekomunikacije d.d.

The total number of employees of the Group as at 31 December 2010 was 6,519 (31 December 2009: 6,116).

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

The consolidated financial statements of Hrvatski Telekom d.d. for the financial year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Management Board on 7 February 2011. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).
The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value (Note 15), as disclosed in the accounting policies hereafter.
The Group's consolidated financial statements are presented in Croatian Kuna (HRK) which is the Group's functional currency. All amounts disclosed in the consolidated financial statements are stated in millions of HRK if not otherwise stated.
The consolidated financial statements include the financial statements of Hrvatski Telekom d.d. and the following subsidiaries:

Ownership Interest

Entity	Country of Business	31 December 2010	31 December 2009
Combis d.o.o.	Republic of Croatia	100%	-
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%
T Mobile Hrvatska d.o.o.	Republic of Croatia	-	100%

As of 1 January 2010, the 100% owned subsidiary T-Mobile Hrvatska d.o.o. has been merged to Hrvatski Telekom d.d., and T-Mobile Hrvatska d.o.o. ceased to exist as a separate legal entity.

2.2. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year.

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
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- 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. On 28 October 2010 the IASB issued amendments to IFRS 9 to address the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. This completed the first phase of the Board's project to replace IAS 39. In the subsequent phases, the IASB will address impairment methodology and hedge accounting. The completion of this project is expected in 2011. The Group does not expect IFRS 9 to have an impact on the financial statements. 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.

IAS 12 – Income Taxes

Amended IAS 12 includes a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered thorough sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The amended standard is applicable for annual periods beginning on or after 1 January 2012 with earlier application permitted. The Group does not expect that amended IAS 12 will have an impact on the financial statements of the Group as the Group currently does not have any investment property or non-depreciable asset which is measured using the revaluation model.

IFRS 7

In October 2010, the IASB issued Disclosures – Transfers of Financial Assets (Amendments to IFRS 7). Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011. The Group expects IFRS 7 to have an impact on the disclosures in the financial statements. The Group plans to adopt this amendment on its effective date.

Improvements to IFRSs (issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective from annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 Business combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

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:

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. The key assumptions take into consideration the probability of meeting each performance target. In relation to acquisition of Combis d.o.o. (Note 3) based on the business plan, the projected results are insufficient to recognise contingent consideration.

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 23 and 29.

Impairment of non-financial assets

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 11 and 12.

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 2010, the estimated liability for unredeemed points was approximately HRK 95 million (31 December 2009: HRK 70 million) (Note 22).

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 related 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.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration will be recognized in profit or loss.

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 that 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.
Amortisation of the UMTS licence has started when operations for the UMTS network started its commercial use, the amortisation 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
Right of way for Distributive Telecommunication Infrastructure (DTI)	30 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	8 – 18 years
Cable ducts and tubes	30 years
Other	2 – 15 years
Tools, vehicles, IT and office equipment	4 – 10 years
Other property, plant and equipment	2 – 30 years

Land is not depreciated.

The useful life, depreciation method and residual values are reviewed at each financial year-end, and if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.
Construction-in-progress represents plant and properties under construction and is stated at cost. Depreciation of an asset begins when it is available for use.

g) Impairment of assets

The determination of 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 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 16 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 liability method.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at the reporting date. Deferred tax 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 reporting 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 21). 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.

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 Company's mobile network, sale of mobile handsets and domestic interconnection revenues related to mobile network.

Revenue from unused tariff packages and prepaid vouchers is 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 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 34. 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 Business combinations

On 18 May 2010 the Group acquired 100% of the voting shares of Combis d.o.o., an unlisted company located in Zagreb specialising in rendering and selling of IT integration services for large and small enterprises. The Group has acquired Combis d.o.o. as ICT services are identified as one of the drivers of future growth in the Group.

The goodwill of HRK 85 million comprises the value of expected synergies arising from the acquisition and a assembled workforce, the value of is not separately recognised. Goodwill is allocated entirely to the T-Com segment. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the identifiable assets and liabilities of Combis d.o.o. as at the date of acquisition were:

	Fair value recognised at acquisition HRK millions
Assets	
Intangible assets	74
Property, plant and equipment	8
Trade receivables	47
Prepaid expenses and other current assets	33
Cash and cash equivalents	13
	175
Liabilities	
Long-term liabilities	(11)
Trade payables	(34)
Other liabilities and accrued expenses	**(26)**
	(71)
Total identifiable net assets at fair value	104
Goodwill arising on acquisition	85
Purchase consideration transferred	**189**

The total cost of acquisition amounted to HRK 189 million and is paid in cash.

Cash flow on acquisition:	HRK millions
Net cash acquired with the subsidiary	13
Cash paid	(189)
Net cash outflow	(176)

From the date of acquisition, Combis d.o.o. has contributed HRK 232 million to the revenue and HRK 12 millions to the net profit of the Group. If the acquisition had taken place at the beginning of the year, total Group revenue from the operations would have been HRK 8,458 million and the profit of the Group would amount to HRK 1,837 millions.

According to the Share Sale and Purchase Agreement for Combis d.o.o., the selling shareholder is also entitled to the Additional Purchase Price if the reported revenues and EBITDA (reported in accordance with IFRS) of Combis d.o.o. for business years 2010 and 2011 exceed certain defined thresholds. Such Additional Purchase Price in the total amount of HRK 44 million represents contingent consideration which according to IFRS 3 needs to be recognised as soon as the payment becomes probable and the amount can be measured reliably. However, based on the business plan, the projected results are insufficient to recognise contingent consideration.

4 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.

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 trade goods through shops is disclosed as revenue in each segment depends on the business nature of the goods sold.

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

Business segments

Year ended 31 December 2010	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
Fixed telephony	2,290	-	-	-	2,290
Wholesale services	695	-	(56)	-	639
Internet services	1,368	-	-	-	1,368
Data services	150	-	-	-	150
Mobile telephony	-	3,635	56	-	3,691
Miscellaneous	1	-	-	-	1
Sale of ICT goods	133	-	-	-	133
System integration, consulting	100	-	-	-	100
Multimedia, broadcast	3	-	-	-	3
Sales to external customers	4,740	3,635	-	-	8,375
Inter-segment sales	241	183	-	(424)	-
Total revenue	4,981	3,818	-	(424)	8,375
Segment results	1,103	1,143	-	-	2,246
Net finance revenue	29	-	-	-	29
Profit before income tax	1,132	1,143	-	-	2,275
Income tax expense	(227)	(217)	-	-	(444)
Profit for the year	905	926	-	-	1,831
Segment assets	10,965	3,761	-	(1,521)	13,205
Investment in associate	2	-	-	-	2
Investment in joint venture	378	-	-	-	378
Total assets	11,345	3,761	-	(1,521)	13,585
Segment liabilities	1,426	1,148	-	(43)	2,531
Total liabilities	1,426	1,148	-	(43)	2,531
Other segment information					
Capital expenditure:					
Property, plant and equipment	722	181	-	-	903
Intangible assets	142	108	-	-	250
Depreciation	742	264	-	-	1,006
Amortisation	176	168	-	-	344
Impairment losses recognised in statement of comprehensive income	(32)	(33)	-	-	(65)
Provisions and employee benefit liabilities	248	45	-	-	293

Business segments

Year ended 31 December 2009	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
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
Sale of ICT goods	-	-	-	-	-
System integration, consulting	-	-	-	-	-
Multimedia, broadcast	-	-	-	-	-
Sales to external customers	4,686	3,831	-	-	8,517
Inter-segment sales	359	357	-	(716)	-
Total revenue	5,045	4,188	-	(716)	8,517
Segment results	953	1,341	-	-	2,294
Net finance revenue	148	124	-	-	272
Profit before income tax	1,101	1,465	-	-	2,566
Income tax expense	(240)	(302)	-	-	(542)
Profit for the year	861	1,163	-	-	2,024
Segment assets	10,573	5,142	-	(1,618)	14,097
Investment in associate	2	-	-	-	2
Investment in joint venture	373	-	-	-	373
Total assets	10,948	5,142	-	(1,618)	14,472
Segment liabilities	1,559	1,041	-	(140)	2,460
Total liabilities	1,559	1,041	-	(140)	2,460
Other segment information					
Capital expenditure:					
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)
Provisions and employee benefit liabilities	262	46	-	-	308

Revenue – by geographical area

	2010 HRK millions	2009 HRK millions
Republic of Croatia	7,664	7,806
Rest of the World	711	711
	8,375	**8,517**

5 Service expenses

	2010 HRK millions	2009 HRK millions
Domestic interconnection	555	547
International interconnection	451	459
Other services	275	260
	1,281	**1,266**

6 Depreciation, amortisation and impairment of non-current assets

	2010 HRK millions	2009 HRK millions
Depreciation	1,066	1,029
Amortisation	344	226
	1,360	1,366
Impairment loss	66	36
	1,415	**1,401**

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

7 Redundancy expenses

	2010 HRK millions	2009 HRK millions
Provision at 1 January – current	7	139
Provision at 1 January - non current	113	-
Total provision for redundancy 1 January	120	139
Interest costs recognised in the statement of comprehensive income	20	-
Additions charged to the statement of comprehensive income	31	152
Utilisation	(38)	(171)
Total provision for redundancy 31 December	133	120
Of that – current	133	7
Of that – non current	-	113

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

8 Other expenses

	2010 HRK millions	2009 HRK millions
Maintenance services	349	379
Advertising	192	234
Rent (Note 28)	165	142
Licence cost	155	121
Selling commission	139	118
Postal expenses	103	107
Non - income taxes & contribution	60	55
Call centre and customer care support	56	39
Contract workers	45	66
Education and consulting	23	45
Daily allowances and other costs of business trips	23	23
Insurance	14	16
Provision for charges and risks	16	11
Loss on disposal of fixed assets	4	9
Other operating charges	75	107
	1,419	**1,472**

9 Taxation

a) Tax on profit

	2010 HRK millions	2009 HRK millions
Current tax expense	455	528
Deferred tax expense	(11)	12
Taxation	**444**	**14**

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

	2010 HRK millions	2009 HRK millions
Profit before taxes	2.275	2.566
Income tax at 20% (domestic rate)	455	513
Tax effects of not taxable income:		
Dividends received and incentives	(2)	(2)
Related to provision for bad debts and value adjustment	(18)	(7)
Revenues taxed in previous years	(4)	(4)
Lower depreciation	(4)	(5)
Other	(1)	(6)
Tax effects of expenses not deductible in determining taxable profits:		
Tax for previous years	(12)	10
Provision for bad debt, value adjustment and accruals	24	9
Entertainment expenses and car usage	4	4
Other	13	16
Deferred tax expense	(11)	14
Taxation	444	542
Effective tax rate	19,52%	21,12%

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

	31 December 2010 HRK millions	Charge to statement of comprehensive income HRK millions	31 December 2009 HRK millions
Deferred tax asset			
Property, plant and equipment write down	12	(4)	16
Deferred revenue from connection fees	11	(4)	15
Non-tax deductible value adjustments	18	6	12
Other	16	13	3
Total deferred tax assets	**57**	**11**	**46**

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 334 million became tax deductible in the period from 2002 to 2010, and the remaining HRK 61 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. 2011 for the 2010 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.

10 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are equal to basic earnings per share since there are no dilutive potential ordinary shares.

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

	2010	2009
Profit for the year attributable to ordinary equity holders of the Company in HRK millions	**1,831**	**2,024**
Weighted average number of ordinary shares for basic earnings per share	81,888,535	81,888,535

11 Intangible assets

	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2009	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
Disposal	(44)	(56)	-	-	(100)
At 31 December 2009	677	1,811	111	89	2,688
Acquisition of a subsidiary (Note 3)	-	-	74	-	74
Additions	6	149	5	90	250
Transfers	(399)	517	(8)	(110)	-
Transfers from property, plant and equipment	-	35	-	-	35
Disposals	(3)	(3)	-	-	(6)
At 31 December 2010	**281**	**2,509**	**182**	**69**	**3,041**
Accumulated amortisation					
At 1 January 2009	**369**	**921**	**26**	**-**	**1,316**
Charge for the year	65	253	18	-	336
Impairment loss	7	15	-	-	22
Transfers from property, plant and equipment	-	62	-	-	62
Disposals	(22)	(47)	-	-	(69)
At 31 December 2009	419	1,204	44	-	1,667
Charge for the year	45	267	32	-	344
Transfers from property, plant and equipment	-	35	-	-	35
Transfers	(318)	326	(8)	-	-
Disposals	(3)	(2)	-	-	(5)
At 31 December 2010	**143**	**1,830**	**68**	**-**	**2,041**
Net book value					
At 31 December 2009	**258**	**607**	**67**	**89**	**1,021**
At 31 December 2010	**138**	**679**	**114**	**69**	**1,000**

The intangible assets of the Group as of 31 December 2010 include the UMTS licence with the carrying value of HRK 94 million (31 December 2009: HRK 101 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 UMTS/GSM related software and user licences in the amount of HRK 60 million, internal reporting software of HRK 14 million, software for business process management and optimization of HRK 14 million, billing software of HRK 6 million, applicative software of HRK 8 million, office software of HRK 5 million and billing software in the shops of HRK 2 million.

Impairment loss

During 2010, the Group did not recognise any impairment loss of intangible assets (2009: HRK 22 million).

12 Property, plant and equipment

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Cost					
At 1 January 2009	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)
Disposals	(3)	(58)	(65)	22	(104)
At 31 December 2009	1,938	11,088	1,000	478	14,504
Acquisition of a subsidiary (Note 3)	-	-	7	1	8
Additions	62	515	50	276	903
Transfers	100	49	188	(337)	-
Transfers to intangible assets	-	(35)	-	-	(35)
Disposals	(2)	(287)	(69)	(7)	(365)
At 31 December 2010	2,098	11,330	1,176	411	15,015
Accumulated depreciation					
At 1 January 2009	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)

	Land and buildings	Telecom plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 31 December 2009	822	6,493	677	5	7,997
Charge for the year	103	774	129	-	1,006
Impairment loss	-	46	4	15	65
Transfers to intangible assets	-	(35)	-	-	(35)
Transfers	-	(103)	103	-	-
Disposals	(1)	(283)	(66)	(4)	(354)
At 31 December 2010	924	6,892	847	16	8,679
Net book value					
At 31 December 2009	1,116	4,595	323	473	6,507
At 31 December 2010	1,174	4,438	329	395	6,336

Included within assets under construction of the Group are major spare parts of HRK 53 million (31 December 2009: HRK 35 million), net of a provision of HRK 10 million (31 December 2009: HRK 4 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 2010, the Group recognised an impairment loss of property, plant and equipment of HRK 65 million (2009: HRK 14 million) due to transfer to a new 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 Company's property, plant and equipment primarily relates to the disposal of telecom machinery, old tools, IT and office equipment of HRK 160 million and disposal of technical platform for prepaid customers of HRK 192 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 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 HT's ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb and City of Split present the majority of problems), may have a material effect on the financial statements in the case that HT will not be able to prove its ownership rights for some ducts.

The Company 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 HT but also on local and state authorities. Since the year 2006 the actions of HT have been concentrated on the conclusion of "right of servitude" contracts with local municipalities and "right of use" contracts with Croatian and County Roads. 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, Zadar, Sisak (partially), Osijek (partially) and many other smaller cities and communities. Negotiations regarding conclusion "right of servitude" contracts with Koprivnica, Osijek (remaining part) and Zagreb are expected to be finished during 2011. 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 (19 of 20 counties).

In connection with the offer for sale of ordinary shares held by the Government of Republic of Croatia (RoC) in 2007, the Government of 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 Law on Electronic Communications effective from 1 July 2008 addresses this issue to a great extent in line with commitments spelled out in the Memorandum of Understanding. 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/m2.

In accordance with these Ordinances the Agency started issuing certificates for the rights of way for certain routes in the city of Zagreb to HT. The Company believes that the issued certificates for the rights of way might help HT in the lawsuit filed by Zagrebački Holding Zagrebački Digitalni Grad (ZHZDG)(Note 29). Law on amendments of Law on public roads (Official Gazette No. 153/09) effective from December 2009 obliges HT to conclude "right of servitude" contracts for electronic communication infrastructure inside road corridor within 12 months period i.e. by the end of 2010. New Law on public roads is currently in preparation and it passed first reading in Croatian Parliament. This new Law prolongs the period for concluding "right of servitude" contracts at lease 12 more months, ie. by the end of 2011.

By conclusion of "right of servitude" contracts, all "right of use" contracts will expire. However, given the fact that most of the land on which there are public roads is not registered in the land registry, the "right of servitude" had no where to be registered. Also, prices for the use of the "right of servitude" (under existing law) should have been determined by the Government of RoC, but to date no such decision was adopted. Government of RoC is preparing a new draft on Law on public roads, and it is expected that mentioned prices will be issued after the enactment of the new legislation. Concluded agreements for the use of road land are further valid, and their adjustment is expected only after imposing of the new regulations.

On 29 April 2010, the Agency opened public hearing relating to the amendments to Ordinance on Manner and Conditions for Access and Joint Use of Electronic Communications Infrastructure and Related Equipment and Ordinance on Certificate and Fees for the Right of Way. On 1 June 2010, the public hearing was closed and new by-laws are expected to be passed.

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 2010 is HRK 889 million (31 December 2009: HRK 887 million).

13 Investments in associate

The net book value of investments in associate comprises:

	31 December 2010 HRK millions	31 December 2009 HRK millions
HP d.o.o. Mostar	2	2
	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 2010 and during the year ended 31 December 2009 was as follows:

The net book value	2010 HRK millions	2009 HRK millions
At 1 January	2	2
Share of profits	2	-
Impairment of investments	(2)	-
At 31 December	2	2

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

Share of the associates statements of financial position:	31 December 2010 Unaudited HRK millions	31 December 2009 Audited HRK millions
Current assets	17	26
Non-current assets	19	19
Current liabilities	(6)	(15)
Non-current liabilities	(1)	(2)
Net assets	29	28
	2010	2009
	Unaudited	Audited
Share of the associate revenue and profit:		
Revenue	31	32
Profit	2	-

14 Investment in joint venture

The net book value of investments in joint venture comprises:

	31 December 2010 HRK millions	31 December 2009 HRK millions
HT d.o.o. Mostar	378	373
	378	373

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

The Group's share in HT d.d. Mostar unaudited profit for the year ended 31 December 2010, is recognised in the statement of comprehensive income in the amount of HRK 11 million (2009: HRK 12 million of profit was recognised based on unaudited results and comprise of HRK 9 million of profit for the year ended 31 December 2009 which was later confirmed by the audit report and additional upward adjustment of HRK 3 million after the jointly controlled entity's final audited result for 2008 had been available).

On 30 April 2010 HT received a dividend of HRK 6 million from HT d.d. Mostar for the financial year of 2008. Accordingly the net book value of this investment in joint venture was reduced by the same amount.

Share of the jointly controlled entity statement of financial position:	31 December 2010 Unaudited HRK millions	31 December 2009 Audited HRK millions
Current assets	89	70
Non-current assets	567	623
Current liabilities	(85)	(155)
Non-current liabilities	(112)	(95)
Net assets	549	443
Share of the jointly controlled entity revenue and profit:	2010 Unaudited	2009 Audited
Revenue	377	354
Profit	11	9

15 Available-for-sale investments

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

Issuer	Currency	Interest rate	Maturity	31 December 2010 HRK millions	31 December 2009 HRK millions
Government of Croatia	HRK	4.75%	8 February 2017	32	32
Government of Germany	EUR	1.25%	11 March 2011	-	74
Other equity securities	HRK			10	9
				42	115

Current available-for-sale investments include the following:

				31 December 2010 HRK millions	31 December 2009 HRK millions
Unit holdings in money market funds:				20	-
Bonds					
Government of Germany	EUR	1.25%	11 March 2011	74	-
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
Foreign treasury bills:					
Government of France	EUR	1.00%	21 April 2011	96	-
Government of France	EUR	1.00%	24 March 2011	74	-
Government of France	EUR	1.00%	19 May 2011	88	-
Government of France	EUR	1.00%	5 May 2011	37	-
Government of Germany	EUR	1.00%	23 February 2011	37	-
Government of Germany	EUR	1.00%	11 May 2011	37	-
Government of Germany	EUR	1.00%	12 May 2010	-	73
				463	257

The estimated fair value of investments in treasury bills and bonds at 31 December 2010 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.

16 Impairment testing of goodwill

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

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 11.0% (2009: 10.93%) and cash flows beyond the ten-year period are extrapolated using a 2.0% growth rate (2009: 2.0%).
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.

17 Inventories

	31 December 2010 HRK millions	31 December 2009 HRK millions
Merchandise	113	106
Inventories and spare parts	103	149
	216	255

18 Trade and other receivables

	31 December 2010 HRK millions	31 December 2009 HRK millions
Trade receivables	1,422	1,392
Other receivables	57	74
	1,479	1,466

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	31-60 days	61-90 days	91-120 days	>120 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
31 December 2010	1.422	920	288	101	39	23	51
31 December 2009	1.392	953	296	76	38	19	10

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 2010, trade receivables with a nominal value of HRK 1,028 million (31 December 2009: HRK 946 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2010 HRK millions	2009 HRK millions
At 1 January	946	883
Charge for the year	211	184
Unused amounts reversed	(129)	(121)
At 31 December	1,028	946

19 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 2010 HRK millions	31 December 2009 HRK millions
Cash on hand and balances with banks	494	465
Time deposits with maturity less than 3 months	2,788	3,730
Cash and cash equivalents	3,282	4,195

b) Time deposits with maturities more than 3 months

	31 December 2010 HRK millions	31 December 2009 HRK millions
Zagrebačka banka d.d.	2	1
Hrvatska poštanska banka d.d.	-	1
	2	2

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

	31 December 2010 HRK millions	31 December 2009 HRK millions
HRK	2,693	3,586
EUR	557	575
USD	34	36
	3,284	4,197

20 Trade and other payables

	31 December 2010 HRK millions	31 December 2009 HRK millions
Trade payables	1,381	1,355
Payroll and payroll taxes	75	68
VAT and other taxes payable	40	16
Other creditors	33	20
	1,529	1,459

21 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 determined in the amount of six average monthly salaries paid to employees in the preceding month. Jubilee benefits are paid in the fixed amount depending on the number of years of service in the Group.

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:

	2010 HRK millions	2009 HRK millions
At 1 January	192	187
Service costs recognised in the statement of comprehensive income	5	16
Interest costs recognised in the statement of comprehensive income	12	12
Payments made under scheme	(15)	(16)
Actuarial gains	(2)	(7)
At 31 December	192	192

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

	2010 %	2009 %
Discount rate (annually)	6.5	6.5
Wage and salary increases (annually)	4.5	4.5

22 Deferred income

	31 December 2010 HRK millions	31 December 2009 HRK millions
Connection fee	74	102
Other	-	1
Deferred income – non current	74	103
Prepaid vouchers	97	140
Connection fee	32	33
Customer loyalty programme	95	70
Other	26	18
Deferred income – current	250	261
	324	364

The connection fee is recognised on a straight-line basis throughout future periods depending on the average useful life of a single customer line.

23 Provisions for legal cases and other provisions

	2010 HRK millions	2009 HRK millions
At 1 January	116	90
Additions	2	11
Asset retirement obligation	1	15
Reversal	(3)	-
Utilisation	(15)	-
At 31 December	101	116

As at 31 December 2010 the Group has provided estimated amounts for several legal actions and claims that management has assessed as probable to be result in outflow of resources of the Group.

24 Issued capital

Authorised, issued, fully paid and registered share capital

	31 December 2010 HRK millions	31 December 2009 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 2010.

25 Legal reserves

Legal reserves represent reserves prescribed by the Company Act in the amount of 5% of the net profit for the year, until these reserves amount to 5% of the issued 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.

26 Retained earnings

In 2010 the Group paid a dividend of HRK 2,788 million (2009: HRK 2,456 million), respectively HRK 34.05 per share (2009: HRK 29.99).

27 Other accruals

	31 December 2010 HRK millions	31 December 2009 HRK millions
Variable salary to employees	90	94
Handset budget programme	63	52
Unused vacation	40	35
Other	3	2
	196	183

28 Commitments

a) Operating lease commitments

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

	2010 HRK millions	2009 HRK millions
Current year expense (Note 8)	165	142

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

	31 December 2010 HRK millions	31 December 2009 HRK millions
Within one year	103	105
Between 2 and 5 years	348	378
Greater than 5 years	302	273
	753	756

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 2010 HRK millions	31 December 2009 HRK millions
Intangible assets	86	116
Property, plant and equipment	123	229
	209	345

29 Contingencies

At the time of preparation of these consolidated financial statements, there are a number of claims outstanding against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which a provision was established (see Note 23 and except for claims where the outcome cannot be reliably determined.

a) Competition / Regulatory matters

Vipnet complaint in front of the Croatian Competition Agency and Optima claim in front of Croatian Post and Electronic Communications Agency (HAKOM)

VIPnet d.o.o. complained to the Competition Agency regarding Frame Agreements that HT and T-Mobile Croatia d.o.o. signed with our 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 Croatia d.o.o. have abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Agency brought 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 and this request has been fulfilled by the Group.
The Group also used its right to challenge it before the Administrative Court. On 23 December 2010 the Administrative Court rejected the claim raised by the Group and the Agency's decision became final and non-appealable.
As required by the Competition Act, misdemeanour proceeding has been initiated and is still pending.
The plaintiff was ordered by the Court to submit data regarding total turnover of the Company and T-Mobile Croatia d.o.o. from 2002-2006 and data on market shares of the Company and T-Mobile Croatia d.o.o. acquired on relevant markets. The penalty for violations of the Law on Protection of Market Competition could amount 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 HAKOM. In June 2006. HAKOM has referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether misdemeanour proceedings should be initiated. The decision is still pending and no advancement in this case occurred. It should be pointed out that the penalty for violations of the Law on Telecommunications could amount between 1% and 5% of the annual turnover of the T-Com business unit. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.

Amis claim in front of Croatian Competition Agency

Amis Telekom submitted a complaint to the Competition Agency against HT and Iskon claiming that HT and Iskon concluded an agreement on the retail price of broadband internet access service. Amis Telekom also complains that HT and its subsidiary, Iskon, abuse their dominant position on the market by providing their services under predatory prices. HT submitted written defence challenging Amis Telekom's statements and showing that no abuse of dominant position occurred.
On 17 July 2009 the Competition Agency started formal proceedings. In the formal proceedings, the Competition Agency shall undertake a detailed economical analysis, in order to determine whether an abuse exists. From current practice of the Competition Agency it cannot be assessed when an economical analysis will be finalized and when the final decision will be passed.
In case that the Competition Agency finds that HT and /or Iskon 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. Also, all profits HT gained from the provisioning of the service in question could be seized.

Pecuniary penalties (fines) prescribed by the Competition Act are in the amount of up to 10% of yearly turnover of undertaking in the year preceding the year in which the offence was committed. However, the lack of recorded examples of the level of fines that might be levied makes it impossible for HT to form a judgment as to the fines that might be levied if HT arguments prove unsuccessful.

Croatian Post and Electronic Communications Agency's (HAKOM's) supervision on Bitstream Standard offer

On 17 July 2009, HAKOM passed decision regarding the analysis of the wholesale bitstream access service by which HT is designated as an operator having significant market power on the relevant market, through which certain regulatory obligations have been defined, including the obligation to publish a Bitstream Standard Offer within the transparency obligation.
On 4 May 2010 HAKOM initiated a supervision relating to distinction between "existing" and "new" end-users in HT's Bitstream Standard Offer, claiming that such distinction is contrary to both the HAKOM's decision dated 17 July 2009, as well as the decision of HAKOM dated 12 March 2010, in which percentage of discount by which HT's retail prices should be reduced in order to form wholesale prices within the Bitstream Standard Offer for all users has been determined in the amount of 40%.
Despite arguments mentioned in HT's response, HAKOM issued a decision on 3 August 2010, ordering HT to erase the mentioned distinction between "existing" and "new" end-users in its Bitstream Standard Offer. In accordance with the deadlines in that decision, HT published its modified Bitstream Standard Offer and subsequently filed a claim against the mentioned decision with Administrative Court on 2 September 2010.
On 29 October 2010 HT received the Misdemeanour indictment against HT and a responsible person, filed with the Misdemeanour Court by HAKOM. The Misdemeanour Court proceedings are pending and next hearing is not jet scheduled.
In the Misdemeanour Indictment, HAKOM proposed that HT should be fined with penalty in the amount of 1% of yearly turnover gained by providing electronic communication networks and services in the year preceding the year in which the offence was committed. On the basis of the results for 2008, 1% of the turnover would amount to HRK 88 million. Due to lack of track record of the level of fines that might be levied makes it impossible to form a reliable judgment about the fines that might actually be levied if HT's arguments prove unsuccessful.

Croatian Post and Electronic Communications Agency's (HAKOM's) supervision on retail prices (quantity discounts)

Croatian Post and Electronic Communications Agency (HAKOM), at the request of Metronet telekomunikacije d.d., initiated supervision to inquire whether imposed regulatory obligation regarding retail price for publicly available telephone service is being applied by HT.
In order to conduct the supervision HAKOM, required delivering of written statement on discount policy and copies of existing agreements (both frame agreements and individual subscriber contracts) signed with various business customers regarding publicly available telephone service; list of all business customers to whom publicly available telephone service is being provided; and data on total revenue achieved by each business customer in 2009. Following this HAKOM's request HT delivered required documentation.
On 26 August 2010 HAKOM passed a resolution stating that HT did not comply with the regulatory obligation determined in the Telecommunication Act and Electronic Communication Act and prohibiting the following: (i) further offering, contracting and provisioning of the services under the prices below the prices approved by the HAKOM for the services under investigation in regards to Zagrebački holding; (ii) further offering and contracting special benefits in a form of quantity discounts. The quantity discounts could be applied if applied transparently, in a non-discriminatory manner, and if the achieved savings are allocated to the customers. Furthermore, the HAKOM requested information on actions undertook pursuant the resolution.
HT challenged the resolution by submitting a lawsuit to the Administrative Court. However, since this law suit does not relieve HT from complying with the resolution, HT informed the HAKOM that it had complied with the resolution and had stopped offering and contracting current quantity discounts scheme.
On 27 October 2010 HAKOM informed HT that it finds that HT had not complied with the item (ii) of

the resolution passed on 26 August 2010. HAKOM determined additional deadline of 8 days for HT to comply with the resolution and imposed administrative measure in total amount of HRK 76,770.00 on all Members of the Management Board. HT believes that it complied with the resolution within the new deadline. However, HAKOM may initiate misdemeanour proceedings before the Misdemeanour Court, or issue a misdemeanour warrant. Fines prescribed for such offence range from 1% to a maximum of 5% of the total annual gross revenue generated from the provision of electronic communication networks and services in the year preceding the year in which the offence was committed. The lack of recorded examples of the level of fines that might be levied regarding the mentioned proceedings makes it impossible for HT to form a judgment as to the fines that might be levied if HT arguments prove unsuccessful.

HT vigorously defends all these competition / regulatory 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) 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. Besides, a Bylaw on telecommunication services which was brought into force as of 1 January 2005 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, HT had introduced a new tariff system with 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 Croatian consumer 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 judgment 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. Based on delivered 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 110 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 adequacy of these claims. It believes that it should win on appeal. Management and HT's legal advisers consider that this claim is without merit and the Company considers it was charging its consumers

in accordance with its Concession Agreement in force at that time, as approved by the Government. 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 individual claims before the Zagreb Municipality Court based on the same substance. Both 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 Appellate Court will accept the Company's appeal.

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 12), 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.

According to recently received information from HT attorney, ZHZDG filed a proposal for initiation of Review of Law proceedings before the Constitutional Court of the RoC in order to nullify provisions of the Electronic Communications Act (applicable law) regulating the usage of public domain and other private property on the basis of the Rights of Way. 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 referred above in the sections a), b) and c).

30 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 2010 and 2009. Further, DTAG and T-Mobile Germany provided technical assistance to the Group of HRK 13 million (2009: HRK 30 million).

The main transactions with related parties during 2010 and 2009 were as follows:

	Revenue		Expenses	
	2010	2009	**2010**	2009
Related party:	**HRK millions**	HRK millions	**HRK millions**	HRK millions
Deutsche Telekom AG, Germany	26	23	24	8
HT Mostar, Bosnia and Herzegovina	37	43	71	75
Telekom Deutschland	27	27	12	14
Others	61	52	25	36
Total international settlements	151	145	132	133
Deutsche Telekom AG, Germany	-	-	31	30
Others	-	-	6	20
Total intercompany services	-	-	37	50
Slovak Telekom	-	-	6	3
Others	-	-	4	1
Total capital expenditure	-	-	10	4
Total related parties	151	145	179	187

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

	Receivables		Payables	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Related party:	**HRK millions**	HRK millions	**HRK millions**	HRK millions
Deutsche Telekom AG, Germany	8	4	13	2
HT Mostar, Bosnia and Herzegovina	9	8	30	13
Telekom Deutschland	14	3	60	44
Others	31	21	58	79
Total international settlements	62	36	161	138
Deutsche Telekom AG, Germany	-	-	21	6
Slovak Telekom	-	-	3	-
Others	-	-	34	2
Total intercompany services	-	-	58	8
Total related parties	62	36	219	146

The Group operates in Croatia in the telecommunications market. As a result of Group's strategic position within the Croatian economy, a substantial portion of its business is transacted with the Croatian Government, its departments and agencies and companies owned by the Croatian Government.

Compensation of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board who is in the same time the Chairman of the Audit Committee of the Supervisory Board in the amount of 1.5 of the average monthly net salary of the employees of the company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Audit Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the company paid in the preceding month. DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG. In 2010, Group paid a total amount of HRK 0.6 million (2009: HRK 0.8 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 2010 the total compensation paid to key management personnel of the Group amounted to HRK 40 million (2009: HRK 49 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 and the operating directors of the Company, who are employed by the Group.

31 Financial risk management objectives 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 18) 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 2010 the Group had business transactions with eight banks (2009: eight banks). The Group had balances accounting for the almost exclusive amount of its total cash and deposits with three domestic banks. For those three domestic banks with foreign ownership the Group received guarantees for deposits given from parent banks which have a minimum rating of BBB+. The management of this risk is focused on dealing with the most reputable banks in foreign and domestic ownership in the domestic market and on contacts with the banks on a daily basis.

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 2010	1,441	32	24	6	26	1,529
Year ended 31 December 2009	1,379	19	43	8	10	1,459

Other long-term liabilities all amounts in HRK millions	1 to 3 years	3 to 5 years	> 5 years	Total
Year ended 31 December 2010	19	11	13	43
Year ended 31 December 2009	6	3	16	25

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 profit before tax HRK millions
Year ended 31 December 2010		
Croatian Kuna	+100	8
	-100	(8)
Euro	+100	4
	-100	(4)
Year ended 31 December 2009		
Croatian Kuna	+100	26
	-100	(26)
Euro	+100	6
	-100	(6)

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 denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate.
The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities.

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.

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.
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 2010 and 31 December 2009 (see Note 26).

	Increase/decrease in Euro rate	Effect on profit before tax HRK millions
Year ended 31 December 2010	+3%	24
	-3%	(24)
Year ended 31 December 2009	+3%	26
	-3%	(26)

32 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 2010	31 December 2009	**31 December 2010**	31 December 2009
Financial assets	**HRK millions**	HRK millions	**HRK millions**	HRK millions
Cash and cash equivalents	3,282	4,195	3,282	4,195
Time deposits	2	2	2	2
Available-for-sale investments, non-current	42	115	42	115
Available-for-sale investments, current	463	257	463	257
Financial liabilities				
Interest-bearing loans	22	17	22	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.

33 Authorization for Services and Applicable Fees

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

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

On 1 July 2008 a new Law on Electronic Communications, in compliance with EU framework, entered into force and introduced general authorization for all electronic communications services and networks. Pursuant to Article 32 of the Law on Electronic Communications HT d.d. is entitled to provide the following electronic communication services based on the general authorisation which has been lastly updated on 15 November 2010:

- Publicly available telephone service in the fixed electronic communications network;
- Publicly available telephone service in the mobile electronic communications network;
- Lease of electronic communication network and/or lines;
- Transmission of image, voice and sound through electronic communication networks (which excludes services of radio diffusion);
- Value added services;
- Internet access services;
- Voice over Internet protocol services;
- Granting access and shared use of electronic communications infrastructure and associated facilities;
- Satellite services;
- Providing of information about the numbers of all subscribers of publicly available telephony services in the Republic of Croatia;
- Issuing of comprehensive publicly available directory of all subscribers of publicly available telephone services in the Republic of Croatia;
- Other services.

Upon the merger of T-Mobile Croatia d.o.o. to HT d.d. as of 1 January 2010, T-Mobile Croatia d.o.o. ceased to exist as a separate company and thus was erased from the list of the operators.

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

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

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

b) Service authorization for provision of public telecommunications services with the usage of radio frequency spectrum in the global mobile network system – GSM and with the usage of radio frequency spectrum in third generation mobile network system UMTS

Upon the merger of T-Mobile Croatia d.o.o. to HT d.d. as of 1 January 2010 all rights and licences for use of addresses and numbers and for the use of radiofrequency spectrum (GSM and UMTS and others) that were granted to T-Mobile Croatia d.o.o. until 31 December 2009 were transferred to HT d.d.

In 2010 upon the Company's request HAKOM issued following licenses to HT d.d.:

- on 20 January 2010 HAKOM issued new technology neutral licences for use of 900 MHz and 1800 MHz radiofrequency spectrum (GSM licence) and for the use of 2100 MHz radiofrequency spectrum (UMTS license);
- on 13 September 2010 HAKOM issued licences for the use of radiofrequency spectrum for satellite services (DTH services);
- on 30 July 2010 HAKOM issued a decision on granting numbering resources in 097 range

On 13 December 2010 HT d.d. submitted the request to HAKOM for the temporary licence for the use of radiofrequency spectrum in 1800 MHz band for the purpose of technical testing and exploration of LTE technology for non-commercial purposes.

c) Fees for providing electronic communications services

Pursuant to the Law on Electronic Communications, HT d.d. is obliged to pay the fees for the use of address, numbers and assignment, usage of radio-frequency spectrum and for the performance of other tasks of HAKOM pursuant to the ordinances of HAKOM and Ministry of the sea, transport and infrastructure The said regulations prescribe the calculation and the amount of fees. These fees are paid one year in advance.

In 2010 HT d.d. paid the following fees:

- the fees for the use of addresses and numbers and for the use of the radiofrequency spectrum (GSM, UMTS and others) pursuant to the ordinance passed by the Ministry of the sea, transport and infrastructure (in favour of State budget, Official Gazette 154/08, 28/09, 97/10) and
- the fees for the performance of other tasks of HAKOM of 0.29% of HT d.d.'s total annual gross revenues in the previous year from the provision of electronic communication networks and services. Pursuant to the ordinance passed by HAKOM (in favour of HAKOM's budget, Official Gazette, 158/09).

d) Audiovisual and electronic media services

Pursuant to the Law on Audio-visual Services, which entered into force on 31 July 2007, HT d.d. is obliged to pay the fee of 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. The final amount of the fee to be paid and scope of the services subject to the fee shall be defined during 2011.
Pursuant to the Law on Electronic Media, which entered into force on 29 December 2009, HT d.d. is obliged to pay upon the request the fee of 0,5% of the annual gross revenues realized from the provision of audiovisual media services and the electronic publication services. The final amount of the fee to be paid and scope of the services subject to the fee shall be defined during 2011.

e) Electronic communications infrastructure and associated facilities

HT d.d. as the infrastructure operator is obligated to pay fees for the right of way in accordance with the Law on Electronic Communications. The fees for the right of way are defined by the Ordinance on right of way certificate and fee (Official Gazette, 31/09, 89/10) passed by HAKOM. The fee is calculated according to the area of land used for the installation of electronic communications infrastructure and associated facilities.

34 Share-based payment transactions

Various mid-term incentive plans (MTIPs) exist at 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. First HT's MTIP is introduced in 2008. 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 duration of MTIP 2008 covers the period from 1 January 2008 to 31 December 2010, MTIP 2009 covers the period from 1 January 2009 to 31 December 2011, while MTIP 2010 covers the period from 1 January 2010 to 31 December 2012. 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 HT 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. HT MTIP 2009 and HT MTIP 2010 also have two targets which are equally weighted and cannot be changed during the MTIP duration. In contrast to HT 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 HT 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 HT MTIP 2008 and 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2009 for HT MTIP 2009, and on January 2010 for HT MTIP 2010 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:

	2010 HRK millions	2009 HRK millions
Expenses for providing for cash-settled share-based payment transactions	4	5
Gains arising from cancellation of provision for cash-settled share-based payment transactions	1	1

35 Auditor's fees

The auditor of the Group's financial statements, Ernst & Young d.o.o., has rendered services of HRK 7 million in 2010 (2009: HRK 6 million). Services rendered in 2010 and 2009 relate to the audits and reviews of the financial statements, audit of financial statements prepared for regulatory purposes and audit of SAP transformation project.

36 Events after reporting period

No other events or transactions have occurred since 31 December 2010 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Group's affairs to require mention in a note to the financial statements.

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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.

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