HT - Hrvatske telekomunikacije d.d.

Consolidated financial statements

31 December 2007

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General information

Responsibility for the 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 published by the International Accounting Standards Board (IASC) which give a true and fair view of the financial position and results of the Group for that period.

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 18 February 2008.

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

18 February 2008

On behalf of the Group,

Ivica Mudrinić
President of the Management Board

Auditors’ report

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

We have audited the accompanying consolidated financial statements (“the financial statements” of HT – Hrvatske telekomunikacije d.d. (“HT d.d.”, “T-HT” or the “Parent Company”) and its subsidiaries (together, the Group) which comprise Consolidated balance sheet as at 31 December 2007 and Consolidated income statement, Consolidated statement of recognised income and expenses and Consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 7 to 54.)

Management Responsibility

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of the Group as at 31 December 2007 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Auditors’ report (continued)

Emphasis of Matter

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

Ownership over and right to use ducts

As explained in Note 11, although the assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of T-HT, HPT Public Company, by virtue of the " Separation of Croatian Post and Telecommunication Act" and contributed by the Republic of Croatia to the share capital at the foundation of T-HT on 1 January 1999, according to other Croatian legislation, part of T-HT's infrastructure that may be considered as a real estate and which is known as Distributive Telecommunication Infrastructure (DTI or ducts) - does not have all necessary documents (building, use permits etc.) and a major part is not registered in the land registry, which may be relevant for the issue of proving the ownership towards third parties. Current intrusions in T-HT ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the financial statements in the case that T-HT will not be able to prove its ownership rights on some ducts.

T-HT formed the Infrastructure Documentation & Registration department that is responsible to ensure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on T-HT, but also on local and state authorities (see Note 11). The net book value of all T-HT’s ducts at 31 December 2007 is HRK 856 million.

In August 2006, the Croatian Agency for Telecommunication (HAT) made a temporary decision by which, starting from 1st October 2006, HAT will take responsibility for government and common use of ducts that are formally disputed by others when the owner of telecommunication infrastructure is not determined. Fees should be paid in from the side of all operators into a temporary account of HAT and after legal resolution of the real owner of the ducts all cash paid in will be transferred to the owner's account. No payments or provisions have yet been made in this respect.

In connection with the offer for sale of ordinary shares the Government of Republic of Croatia (RoC), the Group and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Interalia this provides the underlying principles under which right of way charges and shared usage issues will be based.

The parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to (i) protect the integrity of T-HT’s balance sheet; (ii) recognise the investments of T-HT and its legal predecessors in DTI; and, (iii) enable future (long-term) usage of DTI by T-HT in a manner consistent with its current usage. Such aimed solution regarding the DTI shall be consistent with EU practices and standards.

Management believe that agreement as set out in the Memorandum of Understanding should bring greater clarity to the issues presently identified with respect to the use of the DTI.

The provisions of the agreement need to be implemented and it is not expected that implementation will be completed until later in 2008.

Auditors’ report (continued)

Emphasis of Matter (continued)

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.

It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged.

T-HT assessed and declared the existence of the risks thereon, including of obtaining legal opinion with respect to certain of the issues involved; however, due to the fact that these issues are very complex so far T-HT was not able to determine the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to inability to prove title or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect.

Competition Agency enquiry

As explained in Note 27, there has been a complaint made by competitor VIPnet d.o.o. towards the Competition Agency regarding Frame Agreements that T-HT and T-Mobile Croatia d.o.o. signed with its key and large business clients that allegedly contain anti competitive clauses. The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Protection of Market Competition Act. The Group delivered to the Agency all requested Frame Agreements and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceeding for assessing whether the T-HT 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 that HT d.d. and T-Mobile Croatia d.o.o. abused their dominant position by conclusion of these Frame Agreements and that it will pass the case to the misdemeanour court for determining whether the misdemeanour occurred and, if yes, assessing the penalty. At the time of authorization of these financial statements, T-HT was not informed about the initiation of the proceedings before the Misdemeanour Court. The penalty for violations of the Protection of Market Competition Act could amount up to 10% of the annual HT d.d. and T-Mobile Croatia d.o.o. turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.

A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT - Optima Telekom d.o.o to the Croatian Telecommunications Agency in June 2006. The Agency has now referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether a misdemeanour has been committed. The decision of the telecommunications inspector is still pending. It should be pointed out that the penalty for violations of the Telecommunications Act could amount between 1% and 5% of the annual turnover of the T-Com business unit. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.

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

Auditors' report (continued)

Emphasis of Matter (continued)

Consumer Act claims

As explained in Note 27, currently, the Company is involved in legal proceedings for alleged breach of the Consumer Act. The claimants are residential customers of the T-HT (as well as the consumer protection association) and are contending that the T-HT's monthly access charges in its consumer contracts are unjust and in breach of the Consumer Act.

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 T-HT could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by Company's legal advisors that many of these petitions would be invalid. The Company's legal advisors have assessed that the maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater than this if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.

The Company vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. It believes that it should win on appeal. Management and T-HT's legal advisers consider that this claim is without merit and the Company considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government, and that adverse settlement of this case is remote. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.

On 12 April 2007, the County Court of Zagreb announced a judgement against the Company and in favour of the six claimants resulting in a potential settlement of HRK 12 thousand for the period claimed for and including interest to 30 June 2007. Since the judgement has been made four members of the Consumer Association filed individual claims before Zagreb Municipal Court based on the same substance as adjudicated by the non-final Consumer Fraud Litigation judgement. Both T-HT and the State Attorney objected to these claims. The Company believes that individual claims can not even be discussed while the substance stands under appeal within Consumer Fraud Litigation. Within the litigation and after delivery of the written judgment, all of the litigants (Plaintiff - Consumer Association, Municipality State Attorney representing Republic of Croatia and the Company) have submitted an Appeal against the Court of First instance before Zagreb County Court.

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

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

Slaven Đuroković

18 February 2008

Consolidated income statement
For the year ended 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Rendering of services		8,598	8,386
Sale of goods		240	250
Revenue	3	8,838	8,636
Other income		253	203
Costs of merchandise, consumables and maintenance materials		(867)	(735)
Costs of services	4	(2,372)	(2,219)
Employee benefits costs			
Gross salaries		(904)	(907)
Taxes, contributions and other payroll costs		(271)	(301)
Redundancy expenses	6	(79)	(11)
Other long-term employee benefits	20	(24)	(24)
Work performed by the Group and capitalised		143	201
Depreciation and amortisation	5	(1,362)	(1,402)
Impairment of non-current assets	5	(74)	(68)
Write down of current assets		(154)	(205)
Other costs	7	(608)	(597)
Total operating costs		(6,572)	(6,268)
Operating profit		2,519	2,571
Interest income		331	223
Financial expense		(19)	(8)
Share of profits of associates	13	-	1
Income from investment in joint ventures	14	256	-
Profit before taxes		3,087	2,787
Taxation	8	(616)	(573)
Net profit for the year		2,471	2,214
Earnings per share			
- basic and diluted, for profit for the year attributable to ordinary equity holders of the Company	9	HRK 30.18	HRK 27.04

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

Consolidated balance sheet
As at 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
ASSETS			
Non-current assets			
Intangible assets	10	1,005	1,126
Property, plant and equipment	11	6,153	6,244
Investments in associates	13	2	99
Investment in joint venture	14	348	-
Available-for-sale investments	15	43	14
Goodwill		77	78
Non - current receivables		31	32
Deferred tax asset	8	82	91
Total non-current assets		7,741	7,684
Current assets			
Inventories	16	230	175
Trade and other receivables	17	1,266	1,135
Prepayments and accrued income		62	49
Available-for-sale investments	15	93	878
Time deposits	18 b)	2,533	4,283
Cash and cash equivalents	18 a)	3,367	1,254
Total current assets		7,551	7,774
TOTAL ASSETS		15,292	15,458

Consolidated balance sheet (continued)
As at 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	23	8,189	8,189
Legal reserves	24	409	403
Fair value reserves	25	2	12
Retained earnings	25	3,975	4,127
Total issued capital and reserves		12,575	12,731
Non-current liabilities			
Provisions	22	90	97
Employee benefit obligations	20	201	199
Deferred income	21	143	152
Long-term loans and other long-term liabilities		20	24
Total non-current liabilities		454	472
Current liabilities			
Trade and other payables	19	1,513	1,383
Provisions for redundancy	6	231	428
Provisions for short – term liabilities	22	46	-
Deferred income	21	378	376
Income tax payable		95	62
Short-term borrowings and current portion of long-term loans		-	6
Total current liabilities		2,263	2,255
Total liabilities		2,717	2,727
TOTAL EQUITY AND LIABILITIES		15,292	15,458

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

Signed on behalf of HT Group on 18 February 2008:

I. Mudrinić

J. Czapran

Consolidated cash flow statement
For the year ended 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Operating activities			
Net profit		2,471	2,214
Depreciation charges	5	1,362	1,402
Impairment loss of non-current assets	5	74	68
Income tax expense	8	616	573
Interest income		(308)	(184)
(Gain) / loss on disposal of assets		(3)	17
Dividend from associates	13	-	(1)
Income from investment in joint venture	14	(251)	-
(Increase) / decrease in inventories		(60)	2
(Increase) / decrease in receivables and prepayments		(128)	191
Dividends received		(5)	-
Increase in payables and accruals		90	329
Increase in employee benefit obligations	20	6	6
Interest paid		-	(1)
Decrease in provisions		(148)	(160)
Value adjustment of inventories		6	2
Other non-cash items		9	(38)
Increase in recognised actuarial losses		(2)	-
Taxes paid		(574)	(545)
Net cash flows from operating activities		3,155	3,875
Investing activities			
Purchase of non-current assets	10,11	(1,245)	(1,425)
Purchase of non-current financial assets		(25)	-
Acquisition of subsidiary, net of cash acquired		-	(78)
Proceeds from sale of non-current assets		17	12
Proceeds from sale of non-current financial assets		14	80
Proceeds from sale / (purchase) of current financial assets		143	(4,046)
Purchase of available for sale financial assets		(29)	-
Proceeds from sale of available for sale financial assets		2,258	754
Purchase of held to maturity financial assets		-	(145)
Proceeds from sale of held to maturity financial assets		145	-
Interest received		309	161
Dividend received		5	1
Net cash flows from / (used in) investing activities		1,592	(4,686)
Financing activities			
Repayment of long-term borrowings		(6)	(12)
Repayment of lease liability		(3)	-
Dividends paid	25	(2,617)	(813)
Net cash flows used in financing activities		(2,626)	(825)
Net decrease in cash and cash equivalents		2,121	(1,636)
Effect of F/X rate changes on cash and cash equivalents		(8)	1
Cash and cash equivalents at 1 January		1,254	2,889
Cash and cash equivalents at 31 December	18 a)	3,367	1,254

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

Consolidated statement of recognised income and expense
For the year ended 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Income and expense recognised directly in equity			
Valuation losses from available for sale financial assets	15	(10)	(9)
Deferred tax liabilities on items directly recognised in equity		(1)	(1)
Other		1	(4)
Net income recognised directly in equity		(10)	(14)
Profit for the financial year		2,471	2,214
Total income and expense recognised in the year		2,461	2,200

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

1 Corporate information

HT - Hrvatske telekomunikacije d.d. ("HT" d.d., "T-HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom AG (51%).

The registered office address of the Company is Savska cesta 32, Zagreb, Croatia.

The total number of employees of the Group as at 31 December 2007 was 6,724 (2006: 7,498).

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

The consolidated financial statements of HT – Hrvatske telekomunikacije d.d. for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Management Board on 18 February 2008. These financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for investments held for trading and available-for-sale stated at fair value (Note 16), as disclosed in the accounting policies hereafter.

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

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2. Changes in accounting policies

The Group has adopted the following new and amended IFRS & IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

IFRS 7 Financial Instruments: Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 29 f).

IFRIC 8 Scope of IFRS 2
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. The interpretation had no impact on the financial position or performance of the Group.

2.2 Changes in accounting policies (continued)

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group in periods beginning on or after 1 January 2008 or later periods. The Group has not early adopted any of these standards or interpretations and will adopt them at their effective date, as follows:

IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008).

IFRIC 13 Customer Loyalty Programmes requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group operates such scheme and currently recognizes the provision for customer loyalty program through expenses. Adoption of the IFRIC 13 will result in both the change of the presentation in the income statement and balance sheet and the revaluation of the related balance sheet item at the fair value of award credits granted.

IFRS 8 – Operating segments (effective 1 January 2009)

This standard will have impact only on presentation and disclosures in financial statements in respect of operating segments.

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective 1 March 2007)

It is not expected that IFRIC 11 would have any impact on the Group’s financial statements

IFRIC 12 – Service Concession Arrangements (effective 1 January 2008)

It is not expected that IFRIC 12 would have any impact on the Group’s financial statements

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).It is not expected that IFRIC 14 would have any impact on the Group’s financial statements

IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)

It is not expected that IAS 23 Amendment would have any impact on the Group’s financial statements

2.2. Changes in accounting policies (continued)

The Group is analysing potential impact of the following recently published but not yet effective standards and interpretations impact of which is not know at the moment of authorisation of these financial statements:
IAS 1 – Presentation of financial statements- revised (effective 1 January 2009)
IFRS 3 (revised 2008) – Business combinations - revised (effective 1 January 2009)
IAS 27 (amended 2008) - Amendments to IAS 27 (effective 1 January 2009)

2.3. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements required management to make certain estimates and assumptions which impact the carrying values of the Group's assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses for the period then ended.

Estimates are used for, but not limited to: depreciable lives and residual values of property, plant and equipment and intangible assets, impairment assessments, allowances for inventories and doubtful debts and provisions for employee benefits, and legal claims. More details on accounting policies for these estimates are provided in respective sections of this note as well as in respective notes to the financial statements. Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgement and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Group's operating environment changes. Actual results may differ from those estimates.

Impairment of non-financial assets and ducts issue
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicator that the carrying amounts may not be recoverable. Further details including carrying values and effects on the result of the period are given in Note 10 and 11.

Accounting for merger of HT Mostar and HT MObilne komunikacije Mostar
Significant judgments and estimates were made by the management in determination of accounting for merger of HT Mostar and HT Mobilne komunikacije Mostar. Further details including carrying values and effects on the result of the period are given in Note 14.

2.4. Summary of accounting policies

a) Operating profit

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

b) Business Combinations and Goodwill

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated: represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

c) Investments in associates

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

d) Interest in joint ventures

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

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

2.4. Summary of accounting policies (continued)

e) Intangible assets

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

Useful life of intangible assets is as follows:

UMTS licence	20 years
Patents and concessions	5 – 10 years
Software and other assets	5 years

f) Property, plant and equipment

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

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

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

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

Depreciation is computed on a straight-line basis. The useful life of newly acquired assets is as follows:

Buildings	10 – 50 years
Telecomm plant and machinery	
Cables	10 – 18 years
Cable ducts and tubes	30 years
Other	2 - 18 years
Tools, vehicles, IT and office equipment	4 - 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.

2.4. Summary of accounting policies (continued)

g) Impairment of assets

- Financial instruments

For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement.

- Available-for-sale financial investments

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

- Intangible assets under construction and Other assets

Intangible assets under construction are tested for impairment annually. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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 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.

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.

2.4. Summary of accounting policies (continued)

k) Foreign currencies

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

l) Operating leases

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

m) Taxation

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted at the balance sheet date.

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

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

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

There are no formal procedures in Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2008 for 2007 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 a maximum of 6 years expires.

2.4. Summary of accounting policies (continued)

n) Employee benefit obligations

The Group provides other long-term employee benefits (see Note 20). These benefits include retirement, jubilee (length of service) and surviving dependant pensions, and are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognised as income / expense in the period in which they occur.

o) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and that the amount of the revenue can be measured reliably. Revenues for all services are recognised net of VAT and discounts when the service is provided.

Revenue from fixed telephony includes revenue from activation, monthly fee, calls placed by fixed line subscribers and revenue from additional services in fixed telephony. Revenues from activation (connection fees) are recognised on a straight-line basis throughout future periods depending on an average useful life of single customer line.

Revenue from wholesale services includes interconnection services for domestic and international carriers.

Revenue from mobile telephony includes revenue from installation, monthly fee and call charges for post-paid mobile customers, call charges for pre-paid mobile customers, call charges for customers of international mobile operators when roaming on the T-Mobile’s network, sale of mobile handsets and domestic interconnection revenues related to mobile network.

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

Revenue arrangements with multiple deliverables in mobile business (bundled product offers) are recognised in accordance with industry specific US GAAP rule EITF 00-21 as allowed by IFRS. Revenue arrangements with multiple deliverables are divided into separate units of accounting. Arrangement consideration is allocated among the separate units of accounting based on their relative fair values. The arrangement consideration allocable to a delivered item that does not qualify as a separate unit of accounting within the arrangement is combined with the amount allocable to the other applicable undelivered item within the arrangement. Appropriate recognition of revenue is then applied to those combined deliverables as a single unit of accounting. The amount allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).

2.4. Summary of accounting policies (continued)

o) Revenue recognition (continued)

Revenue from Internet and data services includes revenue from leased lines, frame relay, X.25, ATM, VPN, revenue from Internet subscription, ADSL traffic, fixed line access, WEB hosting, VPN and revenue from Internet traffic to T-Com call number.

Revenue from dividends is recognised when the Group's right to receive the payment is established. Interest revenue is recognised as interest accrues (using the effective interest rate that is the rate that exactly discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

p) Cash and cash equivalents

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

q) Borrowings

Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings, are expensed in the period in which they are incurred.

Borrowings are initially recognised in the amount of the proceeds received net of transaction costs.

r) Investments

Investments are classified into the following categories: held-to-maturity, trading and available-for-sale.

Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

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

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

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.

Gains or losses on measurement to the fair value of available-for-sale investments are recognised directly in the fair value reserve in shareholders' equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

2.4. Summary of accounting policies (continued)

r) Investments (continued)

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

s) Provisions

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

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

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

t) Contingencies

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

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

u) Subsequent events

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

3 Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

T-Com segment provides fixed telephony, wholesale services, internet services and data services.

T-Mobile provides mobile telephony.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transactions between business segments. Those transactions are eliminated in consolidation.

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

Revenue from mobile terminating calls transited through T-Com's network are disclosed as revenue from wholesale services in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.

Revenue from sale of mobile trade goods through T-Com's shops is disclosed as miscellaneous revenue in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.

Due to tourist season, higher revenues and operating profits are usually expected in the summer months for T-Mobile segment.

3 Segment information (continued)

Business segments

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

Year ended 31 December 2007	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
Fixed telephony	3,219	-	-	-	3,219
Wholesale services	832	-	(87)	-	745
Internet services	678	-	-	-	678
Data services	211	-	-	-	211
Mobile telephony	-	3,778	186	-	3.964
Miscellaneous	121	-	(99)	-	22
Sales to external customers	5,060	3,778	-	-	8,838
Inter-segment sales	386	458	-	(844)	-
Total revenue	5,446	4,236	-	(844)	8,838
Results					
Segment results	1,256	1,263	-	-	2,519
Net finance revenue	499	69	-	-	568
Share of profit of an associate	-	-	-	-	-
Profit before income tax	1,755	1,332	-	-	3,087
Income tax expense	(341)	(275)	-	-	(616)
Net profit for the year	1,414	1,057	-	-	2,471
As at 31 December 2007					
Assets and liabilities					
Segment assets	11,374	3,730	-	(162)	14,942
Investment in associates	2	-	-	-	2
Investment in joint venture	348	-	-	-	348
Total assets	11,724	3,730	-	(162)	15,292
Segment liabilities	1,858	1,021	-	(162)	2,717
Total liabilities	1,858	1,021	-	(162)	2,717
Other segment information					
Capital expenditure:					
Property, plant and equipment	749	278	-	-	1,027
Intangible assets	127	95	-	-	222
Depreciation	692	340	-	-	1,032
Amortisation	156	174	-	-	330
Impairment losses recognised in income statement	60	-	-	-	60
Provisions and employee benefit liabilities	259	32	-	-	291

3 Segment information (continued)

Year ended 31 December 2006	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
Fixed telephony	3,558	-	-	-	3,558
Wholesale services	758	-	(93)	-	665
Internet services	490	-	-	-	490
Data services	209	-	-	-	209
Mobile telephony	-	3,520	188	-	3,708
Miscellaneous	101	-	(95)	-	6
Sales to external customers	5,116	3,520	-	-	8,636
Inter-segment sales	350	510	-	(860)	-
Total revenue	5,466	4,030	-	(860)	8,636
Results					
Segment results	1,407	1,164	-	-	2,571
Net finance revenue	157	58	-	-	215
Share of profit of an associate	1	-	-	-	1
Profit before income tax	1,565	1,222	-	-	2,787
Income tax expense	(323)	(250)	-	-	(573)
Net profit for the year	1,242	972	-	-	2,214
As at 31 December 2006					
Assets and liabilities					
Segment assets	12,187	3,507	-	(335)	15,359
Investment in associates	99	-	-	-	99
Total assets	12,286	3,507	-	(335)	15,458
Segment liabilities	2,127	935	-	(335)	2,727
Total liabilities	2,127	935	-	(335)	2,727
Other segment information					
Capital expenditure:					
Property, plant and equipment	771	349	-	-	1,120
Intangible assets	130	175	-	-	305
Depreciation	761	349	-	-	1,110
Amortisation	135	157	-	-	292
Impairment losses recognised in income statement	66	2	-	-	68
Provisions and employee benefit liabilities	275	21	-	-	296

3 Segment information (continued)

Revenue – by geographical area

	2007 HRK millions	2006 HRK millions
Republic of Croatia	8,067	7,747
Rest of the World	771	889
	8,838	8,636

4 Costs of services

	2007 HRK millions	2006 HRK millions
Domestic interconnection	762	682
International interconnection	453	431
Advertising	275	296
Maintenance services	392	332
Rent	128	113
Other services	362	365
	2,372	2,219

5 Depreciation, amortisation and impairment of non - current assets

	2007 HRK millions	2006 HRK millions
Depreciation	1,032	1,110
Amortisation	330	292
	1,362	1,402
Impairment loss	74	68
	1,436	1,470

Refer to Notes 10 and 11 for further details on amortisation and depreciation expense and impairment loss.

6 Redundancy expenses

	2007 HRK millions	2006 HRK millions
Provision at 1 January	428	557
Additions charged to the income statement	79	11
Utilisation	(276)	(140)
Provision at 31 December	231	428

Redundancy expenses and accrued liabilities of the Group include the amount of gross severance payments for employees whose employment contracts will be terminated during 2008 due to business reasons.

7 Other costs

	2007 HRK millions	2006 HRK millions
Education and consulting	86	129
Bank charges, membership and other fees	135	129
Non income taxes and contributions	45	54
Daily allowances and other costs of business trips	23	28
Loss on disposal of fixed assets	18	18
Security	32	34
Contract workers	49	39
Provision for charges and risks (Note 22)	84	-
Other operating charges	135	166
	608	597

8 Taxation

a) Tax on profit

	2007 HRK millions	2006 HRK millions
Current tax expense	607	559
Deferred tax expense	9	14
Taxation	616	573

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

	2007 HRK millions	2006 HRK millions
Profit on ordinary activities before taxation	3,087	2,787
Income tax at 20% (domestic rate)	617	557
Not taxable income:		
Dividends received and incentives	(1)	(4)
Related to provision for bad debts	(3)	(6)
Reversal of impairment of investment in joint venture	(27)	-
Other	(2)	(5)
Tax effects of expenses not deductible in determining taxable profits:		
Entertainment expenses	5	6
Provision for bad debts	7	7
Other non-deductible expenses	20	18
Taxation	616	573

8 Taxation (continued)

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

	2007 HRK millions	Charge / (credit) to Income statement HRK millions	2006 HRK millions
Deferred tax asset			
Property, plant and equipment write down	26	(6)	32
Deferred revenue from connection fees	24	(5)	29
Actuarial gains and losses	10	(1)	11
Other	22	3	19
Total deferred tax assets	82	(9)	91

The deferred tax asset of the Group arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in 2001. Of this amount, HRK 265 million became tax deductible in the period from 2002 to 2007, and the remaining HRK 130 million will be tax deductible in future periods.

The Group has recognised deferred tax assets based on revenue recognition of connection fees in previous periods when the tax on those revenues is paid, and due to applying of new accounting policy when such revenues are deferred for the period of useful life of providing services to the customers. At 31 December 2007, there was no recognised deferred tax liability (2006: nil) for taxes that would be payable on the disposal of the Group's subsidiaries, associate or joint venture, as the Group has no intention to dispose any of its subsidiaries, associate or joint ventures in the foreseeable future. The temporary differences associated with investments in subsidiaries, associate and joint venture, for which deferred tax liability has not been recognised aggregate to HRK 13 million (2006: HRK 61 million).

9 Earnings per share

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

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2007 HRK millions	2006 HRK millions
Net profit for the year attributable to ordinary equity holders of the Company	2,471	2,214
Weighted average number of ordinary shares for basic earnings per share	81,888,535	81,888,535

10 Intangible assets

	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under Construction HRK millions	Total HRK millions
Cost					
At 1 January 2006	495	1,032	17	137	1,681
Additions	10	64	1	230	305
Acquisitions of a subsidiary	-	1	-	1	2
Transfers	47	197	5	(249)	-
Transfers from property, plant and equipment	-	-	-	42	42
Disposals	-	(2)	(1)	(59)	(62)
At 31 December 2006	552	1,292	22	102	1,968
Additions	1	23	1	197	222
Transfers	16	123	4	(143)	-
Transfers from property, plant and equipment	-	-	-	4	4
Disposals	(1)	(5)	(1)	(12)	(19)
At 31 December 2007	568	1,433	26	148	2,175
Accumulated amortisation					
At 1 January 2006	176	366	11	-	553
Charge for the year	68	222	2	-	292
Impairment loss	-	-	-	59	59
Disposals	-	(2)	(1)	(59)	(62)
At 31 December 2006	244	586	12	-	842
Charge for the year	74	252	4	-	330
Impairment loss	4	-	-	12	16
Disposals	(1)	(3)	(2)	(12)	(18)
Transfers	(2)	2	-	-	-
At 31 December 2007	319	837	14	-	1,170
Net book value					
At 31 December 2006	308	706	10	102	1,126
At 31 December 2007	249	596	12	148	1,005

10 Intangible assets (continued)

The intangible assets of the Group as of 31 December 2007 include the GSM and UMTS licence with the carrying value of HRK 18 million and HRK 115 million (2006: HRK 28 million and HRK 122 million), respectively. GSM and UMTS licence is amortised over a period of 10 (starting from September 1999) and 20 (starting from June 2005) years, respectively.

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

Additions of intangible assets

Major additions in 2007 relate to upgrade of IPTV system software in the amount of 15 million HRK, IT software upgrade and IT services 57 million HRK, software for office use in the amount of HRK 3 million and software for accounts receivable in the amount of HRK 3 million, and right of way fees in amount 8 mil HRK.

Impairment loss

During 2007, the Group recognised an impairment loss of intangible assets in the amount of HRK 16 million (2006: HRK 59 million) which relates to software for client relationship management due to its inapplicability for changed business processes and needs.

11 Property, plant and equipment

	Land and buildings HRK millions	Telecomm plant and machinery HRK millions	Tools, vehicles, IT and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2006	1,519	7,934	809	444	10,706
Additions	20	553	7	540	1,120
Acquisitions of a subsidiary	-	16	5	4	25
Transfers	93	389	50	(532)	-
Transfers to intangible assets	-	-	-	(42)	(42)
Disposals	(5)	(233)	(24)	(7)	(269)
At 31 December 2006	1,627	8,659	847	407	11,540
Additions	22	353	35	616	1,026
Transfers	77	322	66	(465)	-
Transfers to intangible assets	-	-	-	(4)	(4)
Correction of prior year classification	-	12	-	-	12
Disposals	(3)	(89)	(45)	(3)	(140)
At 31 December 2007	1,723	9,257	903	551	12,434
Accumulated depreciation					
At 1 January 2006	445	3,569	411	4	4,429
Charge for the year	102	888	120	-	1,110
Impairment loss	-	7	2	-	9
Disposals	(1)	(191)	(57)	(3)	(252)
At 31 December 2006	546	4,273	476	1	5,296
Charge for the year	109	802	121	-	1,032
Impairment loss	-	54	-	3	57
Transfers	(1)	1	-	-	-
Correction of prior year classification	-	12	-	-	12
Disposals	(1)	(78)	(37)	-	(116)
At 31 December 2007	653	5,064	560	4	6,281
Net book value					
At 31 December 2006	1,081	4,386	371	406	6,244
At 31 December 2007	1,070	4,193	343	547	6,153

11 Property, plant and equipment (continued)

Included within assets under construction of the Group are spare parts of HRK 43 million (2006: HRK 37 million), net of a provision of HRK 3 million (2006: HRK nil).

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

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

Impairment loss

During 2007, the Group recognised an impairment loss of property, plant and equipment in the amount of HRK 57 million (2006: HRK 9 million) which mainly relates to DSL equipment due to intended switch to advanced DSL technology.

Disposal of property, plant and equipment

The disposal of the Group's property, plant and equipment primarily relates to the disposal of the base stations as a part of the network modernisation. As a part of preparation for EDGE and UMTS implementation, the Group adjusted the value of the base station radio equipment planned for replacement in the financial statements and wrote it down to the contracted sales price. The total value of impairment for the assets planned to be sold is HRK 14 million, which is recorded as an expense in the accompanying income statement.

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

The Company formed the Infrastructure Documentation & Registration department that is responsible for ensuring that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on a Company, but also on local and state authorities. Nevertheless, contracts on right of way over public areas are concluded with cities of Rijeka, Dubrovnik, Varaždin, Čakovec, Gospić, Metković and number of smaller cities and are in process of registration in the land registry. Furthermore, contracts on use of road land are concluded with Hrvatske ceste and County road managements, covering majority of network passing through road land. Therefore, situation with documentation is significantly improved.

11 Property, plant and equipment (continued)

In August 2006, the Croatian Agency for Telecommunication (HAT) made a temporary decision by which, starting from 1st October 2006, HAT will take responsibility for government and common use of ducts that are formally disputed by others when the owner of telecommunication infrastructure is not determined. Fees should be paid in by all operators into a temporary account of HAT and after legal resolution of the real owner of the ducts all cash paid in will be transferred to the owner's account. No payments or provisions have yet been made in this respect.

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

The parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to (i) protect the integrity of Group’s balance sheet; (ii) recognise the investments of the Group and its legal predecessors in DTI; and, (iii) enable future (long-term) usage of DTI by the Group in a manner consistent with its current usage. Such aimed solution regarding the DTI shall be consistent with EU practices and standards.

Management believe that agreement as set out in the Memorandum of Understanding should bring greater clarity to the issues presently identified with respect to the use of the DTI.

The provisions of the agreement need to be implemented and it is not expected that implementation will be completed until later in 2008.

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.

It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged.

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

The net book value of all the Group’s ducts as of 31 December 2007 is HRK 856 million (2006: HRK 856 million).

12 Investment in subsidiaries

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

Entity	Country of Business	Ownership Interest 2007	2006
T Mobile Hrvatska d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.o.o.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%

13 Investments in associates

The net book value of investments in associates comprises:

	2007 Unaudited HRK millions	2006 Audited HRK millions
HT d.o.o. Mostar	-	22
HP d.o.o. Mostar	2	2
HT MObilne komunikacije d.o.o. Mostar	-	75
	2	99

HT d.d. has associate HP d.o.o. Mostar incorporated in the Republic of Bosnia and Herzegovina, with principal activity provision of post services and ownership interest of 30.29%

See Note 14 for details on HT d.o.o. Mostar and HT MObilne komunikacije d.o.o. Mostar.

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

The net book value	2007 HRK millions	2006 HRK millions
At 1 January	99	99
Reclassification to joint venture	(97)	-
Share of profits	2	39
Dividends paid	-	(1)
Impairment of investments	(2)	(38)
At 31 December	2	99

13 Investments in associates (continued)

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

	2007	2006
Share of the associates balance sheets:	HRK millions	HRK millions
Current assets	22	157
Non-current assets	40	643
Current liabilities	(13)	(147)
Non-current liabilities	(18)	(157)
Net assets	31	496
Share of the associates revenue and profits:		
Revenue	17	422
Profit	2	32

The above 2007 figures are extracted from unaudited financial information, while 2006 figures are extracted from audited financial statements that contain several audit qualifications.

14 Investment in joint venture

The net book value of investments in joint venture comprises:

	2007	2006
	Unaudited	Audited
	HRK millions	HRK millions
HT d.o.o. Mostar	348	-
	348	-

The associate HT MObilne komunikacije d.o.o. Mostar was merged with another associate Hrvatske telekomunikacije d.o.o. Mostar as of 3 January 2007. By this merger uncertainties resulting from the fact that HT Mostar held the GSM licence and HT MObilne komunikacije provided mobile GSM services were resolved. This merger was accounted for as contribution of a non monetary asset in these financial statements. As a result of the exchange, the gain on disposal of the investment of HT MObilne komunikacije is limited to the amount attributable to the other parties to the joint venture and is recognised in the amount of HRK 47 million in the income statement. After merging, the new ownership share of the Group in the Hrvatske telekomunikacije d.o.o. Mostar amounts to 39.10%. As a result of the exchange and the new shareholders relations the investment in Hrvatske telekomunikacije d.o.o. Mostar was reclassified to joint venture accounted for on the equity method. Also, as a result of the resolution of the above mentioned GSM licence issue and some asset ownership issues in Hrvatske telekomunikacije d.o.o. Mostar, the Group has reassessed the impairment provision and consequently an impairment provision of HRK 188 million was released to the income statement. The recoverable amount is determined as the value in use of the investment, in particular, the Group's share of the present value of the estimated future cash flows expected to be generated by Hrvatske telekomunikacije d.o.o. Mostar using a discount rate of 7.7%.

The Group's share in Hrvatske telekomunikacije d.o.o. Mostar unaudited results for year ended 31 December 2007 is recognised in the income statement in the amount of HRK 14 million.

	2007	2006
Share of the jointly controlled entity balance sheets:	HRK millions	HRK millions
Current assets	286	-
Non-current assets	607	-
Current liabilities	(122)	-
Non-current liabilities	(112)	-
Net assets	659	-
Share of the jointly controlled entity revenue and profits:		
Revenue	356	-
Profit	14	-

15 Available-for-sale investments

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

Issuer	*Currency*	*Interest rate*	*Maturity*	2007 HRK millions	2006 HRK millions
Government of Croatia	HRK	4.75%	8 February 2017	33	-
Other equity securities	HRK			10	14
				43	14

Current available-for-sale investments include the following:

	2007 HRK millions	2006 HRK millions
Unit holdings in money market funds:		
ZB Invest d.o.o.	42	97
Erste Invest d.o.o.	26	73
PBZ Invest d.o.o.	25	25
Raiffeisenbank Invest d.o.o.		69
	93	264
Treasury bills:		
Ministry of Finance of Republic of Croatia	-	614
	-	614
	93	878

Estimated fair value of units in money market funds and bonds as of 31 December 2007 is determined by reference to their market value at the balance sheet date offered on secondary capital market.

16 Inventories

	2007 HRK millions	2006 HRK millions
Merchandise	134	89
Inventories and spare parts	96	86
	230	175

17 Trade and other receivables

	2007 HRK millions	2006 HRK millions
Trade receivables	1,200	1,040
Other receivables	66	95
	1,266	1,135

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

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	61-90 days	91-120 days	>120 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
2007	1,200	767	271	61	35	25	41
2006	1,040	664	235	53	31	22	35

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

As at 31 December 2007, trade receivables at nominal value HRK 878 million (2006: HRK 836 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2007 HRK millions	2006 HRK millions
At 1 January	836	725
Charge for the year	367	831
Amounts written off	(325)	(720)
At 31 December	878	836

18 Cash and cash equivalents and time deposits

a) Cash and cash equivalents

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

	2007 HRK millions	2006 HRK millions
Cash on hand and balances with banks	161	233
Time deposits with maturity less than 3 months	3,206	1,021
Cash and cash equivalents	3,367	1,254

b) Time deposits with maturities more than 3 months

Time deposits with maturities more than 3 months are accounts that bear interest from 5.25% to 6.40% and that the Group is entitled to withdraw with prior notice of 1 day. Time deposits, denominated in HRK and euro, are held with the following domestic banks:

	2007 HRK millions	2006 HRK millions
Privredna banka Zagreb d.d.	282	1,034
Zagrebačka banka d.d.	413	821
Societe Generale - Splitska banka d.d.	226	147
Hypo bank d.d.	50	-
Erste Steiermarkische Bank d.d.	855	1,075
Raiffeisenbank Austria d.d.	489	659
Hrvatska poštanska banka d.d.	218	547
	2,533	4,283

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

	2007 HRK millions	2006 HRK millions
HRK	5,192	4,642
EUR	681	849
USD	27	46
	5,900	5,537

19 Trade and other payables

	2007 HRK millions	2006 HRK millions
Trade payables	1,326	1,139
Accrued liabilities	105	114
Payroll and payroll taxes	63	86
VAT and other taxes payable	5	15
Other creditors	14	29
	1,513	1,383

There are no formal procedures in Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities at any time during the three years following the end of the tax year in which the corporate income tax returns were submitted. Given the above, tax liabilities of the Company for the years 2004 and thereafter are open to tax review. During 2005, the tax authorities completed examining the income tax liabilities of the Company for years from 2000 to 2002 and claimed that an additional HRK 92 million of taxes and interests in respect of these years should be paid. The Company has made an appeal against this claim and an objection on Resolution to the same tax authorities and the procedure is still in progress. The Company has made a provision for the amount that is in its view, reasonable to expect to be settled in this case. No further disclosures are made as required by IAS 37 because they may prejudice the position of the Company in this dispute. Part of total amount of accrued liabilities relates to this matter.

20 Employee benefit obligations

Other long-term employee benefits include retirement, jubilee (length of service) and surviving dependant pensions. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service in the Group. All benefit entitlements are determined from the respective employee’s monthly remuneration.

Other long-term employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognised as income / expense in the period in which they occur.

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

	2007 HRK millions	2006 HRK millions
Net liability, beginning of year	199	193
Net expense recognised in the income statement	24	24
Payments made under scheme	(21)	(22)
Actuarial (gains) / losses	(1)	4
Net liability, end of year	201	199

21 Accruals and deferred income

	2007 HRK millions	2006 HRK millions
Subscription fee	106	108
Connection fee	34	31
Other	3	13
Accruals and deferred income – non current	143	152
Connection fee	173	176
Prepaid vouchers	190	176
Other	15	24
Accruals and deferred income – current	378	376

Subscription fee is invoiced for following month, while connection fee is recognised on a straight-line basis throughout future periods depending on an average useful life of a single customer line.

22 Provisions

	2007 HRK millions	2006 HRK millions
At 1 January	97	110
Additions	84	4
Utilisation	(42)	(11)
Reversal	(3)	(6)
At 31 December	136	97

As at 31 December 2007 the Group has provided estimated amounts for several legal actions and claims that management has assessed as likely to be asserted in the future against the Group.

23 Share capital

Authorised, issued, fully paid and registered share capital

	2007 HRK millions	2006 HRK millions
81,888,535 ordinary shares of HRK 100 each	8,189	8,189

The number of shares in issues remained unchanged between 1 January 1999 and 31 December 2007.

24 Legal reserves

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

25 Reconciliation of movements in equity

	Subscribed share capital HRK millions	Legal reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Total HRK millions
Balance as at 1 January 2006	8,189	316	21	2,818	11,344
Allocation of net income	-	87	-	(87)	-
Paid advance dividends for 2005	-	-	-	(813)	(813)
Total recognised income and expense for the year	-	-	(9)	2,209	2,200
Balance as at 31 December 2006	8,189	403	12	4,127	12,731
Allocation of net income	-	6	-	(6)	-
Paid dividends	-	-	-	(2,617)	(2,617)
Total recognised income and expense for the year	-	-	(10)	2,471	2,461
Balance as at 31 December 2007	8,189	409	2	3,975	12,575

In April 2007, the General Assembly of the Company declared an dividend payment to the shareholders resulting from results of the Company for 2006 in the amount of HRK 207 million (HRK 2.53 per share) that was paid in May 2007 (2006: HRK 813 million, HRK 9.93 per share).On 6 September 2007 the General Assembly of the Company declared an extraordinary dividend payment to the shareholders in the amount 2,410 million (HRK 29.43 per share) that was paid in September 2007.

26 Commitments

a) Operating lease commitments

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

Operating lease charges:

	2007 HRK millions	2006 HRK millions
Current year expense (Note 5)	128	113

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

	2007 HRK millions	2006 HRK millions
Within one year	124	119
Between 2 and 5 years	445	412
Greater than 5 years	494	383

The contracts relate primarily to property leases and car leases.

b) Capital commitments

As at 31 December 2007, the Group was committed under contractual agreements to capital expenditures as follows:

	2007 HRK millions	2006 HRK millions
Intangible assets	46	36
Property, plant and equipment	305	385
	351	421

27 Contingencies

a) Litigation

At the time of preparation of these consolidated financial statements, there are a number of claims outstanding against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which provision was established (see Note 22) and except for claims where outcome cannot be reliably determined.

VIPnet d.o.o. (a competitor) complained to the Competition Agency regarding Frame Agreements that T-HT and T-Mobile Croatia d.o.o. signed with their key and large business clients that allegedly contain anti competitive clauses. The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Protection of Market Competition Act. The Group delivered to the Agency all requested Frame Agreements and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceedings for assessing whether the Company and T-Mobile have abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Agency brought decision stating that HT d.d. and T-Mobile Croatia d.o.o. abused their dominant position by conclusion of these Frame agreements and that it will pass the case to the misdemeanour court for determining whether the misdemeanour occurred and, if yes, assessing the penalty. At the time of authorization of these financial statements, the Group was not informed about the initiation of the proceedings before the Misdemeanour Court. The penalty for violations of the Protection of Market Competition Act could amount up to 10% of the annual HT d.d. and T-Mobile Croatia d.o.o. turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.

A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT - Optima Telekom d.o.o to the Croatian Telecommunications Agency in June 2006 The Agency has now referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether a misdemeanour has been committed. The decision of the telecommunications inspector is still pending. It should be pointed out that the penalty for violations of the Telecommunications Act could amount between 1% and 5% of the annual turnover of the T-Com business unit. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.

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

b) Billing interval and Consumer Act claims

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

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

27 Contingencies (continued)

b) Billing interval and Consumer Act claims (continued)

Immediately after the Bylaw on telecommunication services has entered into force, T-HT has 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 sec that 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 the consumer protection association). They contend that the Company's monthly access charges in its consumer contracts are unjust and in breach of the applicable law. The claimants are also, similarly as in the above described case of State Inspectorate investigation, contending the Company's billing interval of 60 seconds. The Company has been informed that approximately 42,000 consumers signed a collective petition in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitions would be invalid. The Company's legal advisors have assessed that the maximum exposure with respect to the 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.

The Company vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. It has been advised that it should win on appeal. Management and T-HT's legal advisers consider that this claim is without merit and the Company considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government, and that adverse settlement of this case is remote. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.

On 12 April 2007, the County Court of Zagreb announced a judgement against the Company and in favour of the six claimants resulting in a potential settlement of HRK 12 thousand for the period claimed for and including interest to 30 June 2007. Since the judgement has been made, four members of the Consumer Association filed individual claims before Zagreb Municipal Court based on the same substance as adjudicated by the non-final Consumer Fraud Litigation judgement. Both T-HT and the State Attorney objected to these claims. The Company believes that individual claims can not even be discussed while the substance stands under appeal within Consumer Fraud Litigation.

Within the litigation and after delivery of the written judgment, all of the litigants (Plaintiff - Consumer Association, Municipality State Attorney representing Republic of Croatia and the Company) have submitted an Appeal against the Court of First instance before Zagreb County Court.

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

28 Balances and transactions with related parties

The transactions specified in the table below primarily relate to the transactions with the companies owned by Deutsche Telekom AG (DTAG). The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during year ended 31 December 2007 and 2006. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 42 million (2006: HRK 54 million).

The main transactions with related parties during 2007 and 2006 were as follows:

Related party:	Revenue 2007 HRK millions	Revenue 2006 HRK millions	Expenses 2007 HRK millions	Expenses 2006 HRK millions
T-Systems Enterprise services, Germany	29	38	9	13
HT Mostar, Bosnia and Herzegovina	30	28	54	44
T-Mobile, Germany	2	23	18	20
Others	55	68	85	49
Total international settlements	116	157	166	126
Deutsche Telekom AG, Germany	-	-	36	59
T-Systems Enterprise services, Njemačka	-	-	3	7
Others	-	1	1	16
Total intercompany services	-	1	40	82
T-Systems Enterprise services, Germany	-	-	8	15
Deutsche Telekom AG, Germany	-	-	2	-
Others	-	-	3	8
Total capital expenditures	-	-	13	23
Total related parties	116	158	219	231

28 Balances and transactions with related parties (continued)

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

Related party:	Receivables 2007 HRK millions	Receivables 2006 HRK millions	Payables 2007 HRK millions	Payables 2006 HRK millions
T-Systems Enterprise services, Germany	3	7	1	2
HT Mostar, Bosnia and Herzegovina	13	13	30	23
T-Mobile, Germany	4	1	40	22
Others	17	11	69	27
Total international settlements	37	32	140	74
Deutsche Telekom AG, Germany	-	-	9	29
T-Systems Enterprise services, Germany	-	-	10	9
Others	-	-	1	5
Total intercompany services	-	-	20	43
Total related parties	37	32	160	117

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

Compensation of key management personnel

In 2007 the total compensation paid to key management personnel of the Group amounted to HRK 37 million (2006: HRK 32 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries, the Executive Board of T-Com and the executive directors of the Company, who are employed by the Group.

29 Financial risk management objective and policies

The Group is exposed to international service-based markets. As a result, it can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

Group considers that its maximum exposure is reflected by the amount of debtors (see Note 18) net of provisions for impairment recognised at the balance sheet date.

Additionally, the Group is exposed to risk through cash deposits in the banks. Management of the risk is focused on dealing with most reputable banks in foreign and domestic ownership in the domestic market and on contacts with the banks on a daily basis. For all domestic banks with foreign ownership Company received guarantees for deposits given from mother banks which have minimum rating of BBB+.

b) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments for the foreseeable future.

Any excess cash is invested mostly in available-for-sale investments.

Major trade payables with maturity from 91 – 120 days are related to accrued liabilities for management bonuses.

Trade and other payables all amounts in HRK millions	Non due	0-30 days	31-60 days	61 - 90 days	91 – 120 days	> 120 days	Total
Year ended 31 December 2007	1,19	124	44	21	121	8	1,51
Year ended 31 December 2006	942	224	73	14	121	9	1,38

Long-term loans and other long-term liabilities all amounts in HRK millions	On demand	< 1 year	1 to3 years	3 to5 years	> 5 years	Total
Year ended 31 December 2007	-	2	3	3	12	20
Year ended 31 December 2006	-	7	1	2	14	24

29 Financial risk management objective and policies (continued)

c) Interest rate risk

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

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

	Increase/decrease in base points	Effect on profit before tax HRK millions
2007		
Croatian kuna	+50	29
	-50	(29)
Euro	+50	1
	-50	(1)
2006		
Croatian kuna	+50	20
	-50	(20)
Euro	+50	1
	-50	(1)

d) Foreign currency risk

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

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

29 Financial risk management objective and policies (continued)

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

	Increase/decrease in Euro rate HRK millions	Effect on profit before tax HRK millions
2007	+5%	(1)
	-5%	1
2006	+5%	-
	-5%	-

e) Fair value estimation

The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date. The Group's principal financial instruments not carried at fair value are trade receivables, other receivables, long-term receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms approximate their fair values.

f) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

30 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	
	2007	2006	2007	2006
	HRK millions	HRK millions	HRK millions	HRK millions
Financial assets				
Cash and cash equivalents	3,367	1,254	3,367	1,254
Time deposits	2,533	4,283	2,533	4,283
Available-for-sale investments, non-current	43	14	43	14
Available-for-sale investments, current	93	878	93	878
Financial liabilities				
Interest-bearing loans	20	24	20	24

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

At 31 December 2007 all investments are recognised at fair value.

31 Service Concession Arrangements

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

a) Concession Agreement for the performance of telecommunication services in a fixed network

With this Agreement, the Government grants HT d.d., as the Concessionaire, the right to provide the following services throughout the territory of the Republic of Croatia:

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

The Concession Agreement was signed on 22 September 1999, with two amendments dated 30 July 2001 and 17 October 2001. After the expiry of HT d.d. exclusive rights in the fixed network on 1 January 2003, the Telecommunications Act required harmonisation of the Concession agreement with provisions of the Telecommunications Act. The harmonisation process finished in February 2007 with an Agreement of the Alignment of the Concession Agreement with the valid Telecommunications Act between the Government of the Republic of Croatia and HT d.d. and an Agreement on Enforcement of the Agreement on Alignment of the Concession Agreement entered into by the Government of the Republic of Croatia, the National regulatory authority (NRA) and HT d.d.

Pursuant to the Agreement on Enforcement, on April 20, 2007 the NRA passed the following decisions granting to HT d.d. the authorisations existing under the current Telecommunications Act for the provision of telecommunications services:

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

These decisions confirmed the existence and validity of HT's rights and authorisations existing under the Concession Agreement for the period of 30 years from entry into the Concession Agreement. The Concession Agreement can be extended under the same conditions and may be revised upon the agreement of both parties.

The licensing fees for second and every other consecutive year of the provision of public voice services, leased lines, leasing the telecommunications network or parts thereof, Internet access services, VoIP service, telecommunications services with usage of a free radio-frequency spectrum and other telecommunications services consisting of transmission of voice, sound, data, documents, images and other provided without use of radio frequency spectrum, amount to 0,1% of the total annual revenue, i.e. all invoiced revenues from the last 12 months, accrued from the provision of services. Fees for use of numeration and frequencies are not included in the above license fees, but are paid additionally according to amounts prescribed by the valid regulations. The licences can be terminated or suspended in accordance with the Telecommunications Act.

31 Service Concession Arrangements (continued)

a) Concession Agreement for the performance of telecommunication services in a fixed network (continued)

Besides the above license fees, HT d.d. is obliged to pay additional fee in the amount of 0,2 % of the total annual gross revenues realised in the previous year from the provision of telecommunications services and activities, for funding of the operations of National regulatory authority for telecommunications.

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

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

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

The GSM Concession Agreement lasts for 10 years starting from 16 September 1999. In such a case where future amendments of the Telecommunications Act offer a longer concession period, the Concession term shall be extended for the period envisaged in such an amendment of the Law.

Upon the expiration of the period for which the Concession was granted, the Regulator shall invite new bids for granting GSM concession, if so required by the Telecommunications Act in force at that time. The main criterion for the selection, which will be applied at this bidding, shall be the previous experience in offering GSM services by existing operators. In this way the Concessionaire will be given priority, in accordance with the Telecommunications Act. According to the Telecommunications Act in force public tender is required.

T-Mobile d.o.o. is obliged to ensure that at least 95% of the population of the Republic of Croatia will be able to access the GSM network from their regular place of residence; and ensure that the GSM network will be accessible from at least 75% of the territory of the Republic of Croatia.

T-Mobile d.o.o. has to develop its GSM network in such a way that at all times the network meets certain prescribed quality parameters.

Initially T-Mobile d.o.o. was granted 60 paired GSM channels. In November and December 2007 an additional 12 paired E-GSM and 42 paired GSM/DCS-1800 channels were granted to the Company. Annex to the concession agreement, regulating the use of those additional frequencies is expected to be concluded in 2008.

In addition to the initial concession fee paid in the amount of HRK 100 million, T-Mobile d.o.o. currently pays an annual concession fee of HRK 5 million for the GSM Concession.

T-Mobile d.o.o. also has to pay the annual radiofrequency fee of HRK 100 thousand per one duplex channel pursuant to the GSM Concession.

T-Mobile d.o.o. pays an annual fee of HRK 150 per one mobile radio station subscriber (excluding Prepaid users) in GSM, however the Company has the right to collect this fee from its subscribers.

The Regulator has the right to revoke the Concession under certain prescribed conditions if the Concessionaire fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Telecommunications Act or of relevant Subordinate Legislation.

31 Service Concession Arrangements (continued)

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

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

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

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

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

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

In addition to the initial concession fee paid in the amount of HRK 132 million, T-Mobile d.o.o. currently pays an annual concession fee of 1% of total revenues realised in UMTS mobile network.

T-Mobile d.o.o. also has to pay the annual radiofrequency fee of HRK 5 million per one assigned frequency block of 5 MHz in UMTS network (altogether 4 blocks).

The Regulator has the right to revoke the Concession under certain prescribed conditions if the Concessionaire fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Telecommunications Act or of relevant Subordinate Legislation.

32 Subsequent events

No events or transactions have occurred since 31 December 2007 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.