HT - Hrvatske telekomunikacije d.d.

Consolidated financial statements

31 December 2008

Contents

General information

Management report

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

Responsibility for the consolidated financial statements

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

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 26 February 2009.

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

26 February 2009

On behalf of the Group,

Ivica Mudrinić
President of the Management Board

Auditors’ report

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

We have audited the accompanying consolidated financial statements (“the financial statements” of HT – Hrvatske telekomunikacije d.d. (“HT d.d.”, “T-HT” or the “Parent Company”) and its subsidiaries (together, the Group) which comprise Consolidated balance sheet as at 31 December 2008 and Consolidated income statement, Consolidated statement of recognised income and expenses and Consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 12 to 59.)

Management Responsibility

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

Auditor’s Responsibility

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

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

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

Opinion

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

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

The net book value of all T-HT’s ducts at 31 December 2008 is HRK 857 million.

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

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

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

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

Auditors’ report (continued)

Emphasis of Matter (continued)

Competition Agency enquiry

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

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

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

Auditors' report (continued)

Emphasis of Matter (continued)

Consumer Act claims

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

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

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

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

Slaven Đuroković

26 February 2009

Consolidated income statement
For the year ended 31 December 2008

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

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

Consolidated balance sheet
As at 31 December 2008

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

Consolidated balance sheet (continued)
As at 31 December 2008

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

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

Signed on behalf of HT Group on 26 February 2009:

Ivica Mudrinić

Jürgen P. Czapran

Consolidated cash flow statement
For the year ended 31 December 2008

	Notes	2008 HRK millions	2007 HRK millions
Operating activities			
Net profit		2,310	2,473
Depreciation charges	5	1,346	1,362
Impairment loss of non-current assets	5	17	74
Income tax expense	8	632	616
Interest income		(328)	(308)
Gain on disposal of assets		(13)	(3)
Income from investment in joint venture	13	(18)	(251)
Increase in inventories		(111)	(60)
Increase in receivables and prepayments		(84)	(128)
Dividends received		-	(5)
Increase/(decrease) in payables and accruals		31	(53)
(Decrease)/increase in employee benefit obligations	20	(14)	6
Interest paid		(7)	-
Increase/(decrease) in provisions		15	(5)
Value adjustment of inventories		27	6
Other non-cash items		8	7
Increase in recognised actuarial losses		-	(2)
Taxes paid		(699)	(574)
Net cash flows from operating activities		3,112	3,155
Investing activities			
Purchase of non-current assets	10,11	(1,624)	(1,245)
Purchase of non-current financial assets		-	(25)
Proceeds from sale of non-current assets		39	17
Proceeds from sale of non-current financial assets		14	14
Proceeds from sale of current financial assets		405	143
Purchase of available for sale financial assets		-	(29)
Proceeds from sale of available for sale financial assets		1,971	2,258
Proceeds from due held to maturity financial assets		-	145
Interest received		380	309
Dividend received		-	5
Net cash flows from investing activities		1,185	1,592
Financing activities			
Repayment of long-term borrowings		(1)	(6)
Repayment of lease liability		(11)	(3)
Dividends paid	25	(2,421)	(2,617)
Net cash flows used in financing activities		(2,433)	(2,626)
Net increase in cash and cash equivalents		1,864	2,121
Effect of F/X rate changes on cash and cash equivalents		(8)	(8)
Cash and cash equivalents at 1 January		3,367	1,254
Cash and cash equivalents at 31 December	18 a)	5,223	3,367

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

Consolidated statement of recognised income and expense
For the year ended 31 December 2008

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

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

1 Corporate information

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

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

The total number of employees of the Group as at 31 December 2008 was 6,487 (2007: 6,724).

The principal activities of the Group are described in Note 3.

The consolidated financial statements of HT – Hrvatske telekomunikacije d.d. for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Management Board on 26 February 2009. These consolidated financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

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

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

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

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

		Ownership Interest	
Entity	Country of Business	2008	2007
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%

2.2. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

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

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

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

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

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group amended its accounting policy accordingly, although the adoption of this interpretation had no impact on the financial position or performance of the Group.

2.2. Changes in accounting policies (continued)

Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group in periods beginning on or after 1 January 2009 or later periods. The Group has not early adopted any of these standards or interpretations and will adopt them at their effective date, as follows:

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009)

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

IFRS 2 Share-based Payment (Revised, effective for annual periods beginning on or after 1 January 2009)

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It is not expected that this amendment to IFRS 2 will have any impact on the financial position or performance of the Group as no events occurred that this interpretation relates to.

IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)

The IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The Group has concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

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

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

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

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

2.2. Changes in accounting policies (continued)

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

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

IFRIC 17 Distribution of Non-Cash Assets to owners (effective for annual period beginning on or after 1 July 2009):
IFRIC 17 applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) Distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in IFRS 3, ownership interests in another entity or disposal groups as defined in IFRS 5); and

(b) Distributions that give owners a choice of receiving either non-cash assets or a cash alternative. This Interpretation applies only to distributions in which all owners of the same class of equity instruments are treated equally. The interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution. Since the Group does not distribute non-cash assets to the owners, it is not expected that adoption of this interpretation will have any effect on its financial position or performance.

2.2. Changes in accounting policies (continued)

Improvements to IFRSs

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

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

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

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

IAS 28 Investment in Associates: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

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

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

IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

2.3. Significant accounting judgments, estimates and assumptions

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

Impairment of Non-financial assets: The Group's impairment test for Goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Further details including carrying values and effects on the result of the period are given in Notes 10 and 11.

2.4. Summary of accounting policies

a) Operating profit

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

b) Business Combinations and Goodwill

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

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

2.4. Summary of accounting policies (continued)

c) Investments in associates

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

d) Interest in joint ventures

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

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

e) Intangible assets

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

Useful life of intangible assets is as follows:

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

f) Property, plant and equipment

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

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

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

2.4. Summary of accounting policies (continued)

f) Property, plant and equipment (continued)

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

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

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

Land is not depreciated.

The useful life, depreciation method and residual values are reviewed at each financial year-end and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

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

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

g) Impairment of assets

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

2.4. Summary of accounting policies (continued)

g) Impairment of assets (continued)

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

h) Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount, based on value in use estimations, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 15 for more details.

i) Inventories

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

j) Receivables

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

k) Foreign currencies

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

l) Operating leases

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

2.4. Summary of accounting policies (continued)

m) Taxation

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

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

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

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

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

n) Employee benefit obligations

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

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

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

2.4. Summary of accounting policies (continued)

o) Revenue recognition

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

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

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

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

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

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

Revenue from Internet and data services includes revenue from leased lines, frame relay, ATM, Ethernet services, ADSL subscription and traffic, fixed line access, WEB hosting, VPN online, internet traffic to T-Com call number, Multimedia services, IP phone (access and traffic) and IPTV. Such revenue is recognized in the accounting period in which it is earned in accordance with the realization principle.

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

p) Cash and cash equivalents

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

2.4. Summary of accounting policies (continued)

q) Borrowings

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

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

r) Investments

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

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

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

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

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

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

s) Provisions

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

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

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

2.4. Summary of accounting policies (continued)

t) Contingencies

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

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

u) Share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 33. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

v) Correction of error

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

w) Comparatives

Prior year financial statements have been reclassified in order to comply with current year classification. Net profit and total assets were not impacted by these changes.

Major reclassification relates to change of Group’s reporting method of Value added services (VAS) revenues from gross to net in the year 2008 in order to be in full compliance with the requirements of IAS 18. Net reporting method was also used in presentation of data for the year 2007 as a comparative period. Those nettings lowered both revenues and costs of services by HRK 189 million (2007: HRK 256 million).

x) Subsequent events

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

3 Segment information

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

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

T-Mobile provides mobile telephony.

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

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

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

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

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

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

3 Segment information (continued)

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

3 Segment information (continued)

Revenue – by geographical area

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

4 Services expenses

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

5 Depreciation, amortisation and impairment of non-current assets

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

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

6 Redundancy expenses

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

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

7 Other expenses

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

8 Taxation

a) Tax on profit

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

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

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

8 Taxation (continued)

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

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

The deferred tax asset of the Group arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in 2001. Of this amount, HRK 290 million became tax deductible in the period from 2002 to 2008, and the remaining HRK 105 million will be tax deductible in future periods.

The Group has recognised deferred tax assets based on temporary differences coming out of revenue recognition of connection fees in previous periods when the tax on those revenues was paid, and due to deferring these fees for the period of useful life of providing services to the customers for reporting purposes.

There are no formal procedures in Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2009 for 2008 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until absolute statute of limitation of 6 years expires.

9 Earnings per share

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

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

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

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

10 Intangible assets

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

10 Intangible assets (continued)

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

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

Additions of intangible assets

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

Impairment loss

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

11 Property, plant and equipment

	Land and buildings HRK millions	Telecom plant and machinery HRK millions	Tools, vehicles, IT and office Equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2007	1,627	8,659	847	407	11,540
Additions	22	353	35	616	1,026
Transfers	77	322	66	(465)	-
Transfers to intangible assets	-	-	-	(4)	(4)
Correction of prior year classification	-	12	-	-	12
Disposals	(3)	(89)	(45)	(3)	(140)
At 31 December 2007	1,723	9,257	903	551	12,434
Additions	14	446	54	828	1,342
Transfers	66	399	63	(528)	-
Transfers to intangible assets	-	-	-	(22)	(22)
Disposals	(13)	(128)	(54)	(4)	(199)
At 31 December 2008	1,790	9,974	966	825	13,555
Accumulated depreciation					
At 1 January 2007	546	4,273	476	1	5,296
Charge for the year	109	802	121	-	1,032
Impairment loss	-	54	-	3	57
Transfers	(1)	1	-	-	-
Correction of prior year classification	-	12	-	-	12
Disposals	(1)	(78)	(37)	-	(116)
At 31 December 2007	653	5,064	560	4	6,281
Charge for the year	86	825	103	-	1,014
Impairment loss	-	10	-	5	15
Disposals	(9)	(126)	(45)	(3)	(183)
At 31 December 2008	730	5,773	618	6	7,127
Net book value					
At 31 December 2007	1,070	4,193	343	547	6,153
At 31 December 2008	1,060	4,201	348	819	6,428

11 Property, plant and equipment (continued)

Included within assets under construction of the Group are spare parts of HRK 55 million (2007: HRK 43 million), net of a provision of HRK 3 million (2007: HRK 3 million).

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

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

Impairment loss

During 2008, the Group recognised an impairment loss of property, plant and equipment in the amount of HRK 15 million (2007: HRK 57 million) which mainly relates to Data and IP Terminal equipment due to an advance in technology. The recoverable amount of that equipment is its fair value less cost to sell, which is based on the best information available to reflect the amount that the Group could obtain, at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

The disposal of the Group's property, plant and equipment primarily mostly relates to the disposal of the land and buildings in the amount of HRK 13 million, to the disposal telecommunications plant and equipment in the amount of HRK 128 million and of old tools, IT and office equipment in the amount of HRK 54 million (all values stated as gross book values).

Ownership over ducts

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

The Company formed the Infrastructure Documentation and TC Infrastructure department that is responsible to assure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on T-HT but also on local and state authorities. During the year 2008, 2007 and 2006, actions of T-HT were concentrated on the conclusion of right of way contracts with local municipalities and right of use contracts with Croatian and County roads.

11 Property, plant and equipment (continued)

Ownership over ducts (continued)

T-HT has concluded right of way contracts with following cities: Rijeka, Dubrovnik, Varaždin, Čakovec, Gospić, Požega, Pula, Bjelovar, Slavonski Brod, Krapina and many other smaller cities and communities. Furthermore, the Company has concluded right of use contracts with Croatian Roads (for all of roads under their management) and with County roads (15 of 21 Counties).

The newly registered DTI route during the year 2006 to 2008 is: cities 2,300 km; county roads 6,700 km, and 2,250 km of all other roads throughout Croatia which are under management of state owned company Hrvatske ceste. Therefore, the situation with documentation has significantly improved.

The legalization process is to be speeded up due to new Law on Electronic Communications which will oblige local municipality and other owner land used for the construction of TC infrastructure to give the Company right of way if other solutions were not agreed. The new Law on Electronic Communications entered into force on 1 July 2008.

The new Law on Electronic Communications addresses this issue to a great extent in line with commitments spelled out in the Memorandum of Understanding (see below). However, it is possible that difficulties and challenges will arise in the current process of passing subordinate regulations under the 2008 Law by the Croatian Agency for Post and Telecommunications. In December 2008 the Agency passed Ordinance on Manner and Conditions for Access and Joint Use of Electronic Communications Infrastructure and Related Equipment (Official Gazette No. 154/08 effective as of January 6, 2009) which replaces the Terms for Joint Use and regulates the issue in similar manner. In December 2008 Croatian Agency for Post and Electronic Communications concluded public discussion on Ordinance on Certificate and Fees for the Right of Way, as foreseen under the Law on Electronic Communications. Draft of the ordinance provides for the fee for the Right of Way Public.

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

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

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

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

12 Investments in associates

The net book value of investments in associates comprises:

	2008 HRK millions	2007 HRK millions
HP d.o.o. Mostar	2	2
	2	2

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

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

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

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

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

13 Investment in joint venture

The net book value of investments in joint venture comprises:

	2008 HRK millions	2007 HRK millions
HT d.o.o. Mostar	365	348
	365	348

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

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

14 Available-for-sale investments

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

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

Current available-for-sale investments include the following:

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

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

15 Impairment testing of goodwill

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

The recoverable amount of T-Com unit has been determined based on the value in use calculation using cash flow projections from financial budgets covering a four-year period. The post-tax discount rate applied to cash flow projections is 8.67% (2007: 7.93%) and cash flows beyond the four-year period are extrapolated using a 2.2% growth rate (2007: 2.2%).

The calculation of value-in-use for T-Com unit is most sensitive to the assumptions on market penetration, market share, regulation and discount rate.

With regard to the assessment of value-in-use of T-Com unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

16 Inventories

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

17 Trade and other receivables

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

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

	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
2008	1,16	794	225	89	28	17	14
2007	1,20	767	271	61	35	25	41

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

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

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

18 Cash and cash equivalents and time deposits

a) Cash and cash equivalents

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

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

b) Time deposits with maturities more than 3 months

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

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

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

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

19 Trade and other payables

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

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

20 Employee benefit obligations

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

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

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

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

21 Accruals and deferred income

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

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

22 Provisions

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

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

23 Share capital

Authorised, issued, fully paid and registered share capital

	2008 HRK millions	2007 HRK millions
81,888,535 ordinary shares of HRK 100 each	8,189	8,189

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

24 Legal reserves

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

25 Reconciliation of movements in equity

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

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

26 Other accruals

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

27 Commitments

a) Operating lease commitments

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

Operating lease charges:

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

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

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

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

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

28 Contingencies

a) Litigation

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

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

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

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

b) Billing interval and Consumer Act claims

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

28 Contingencies (continued)

b) Billing interval and Consumer Act claims (continued)

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

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

The Company is currently involved in legal proceedings for alleged breach of the Croatian Consumer Act. The claimants are residential customers of the Company (as well as consumer protection association). They contend that the Company's monthly access charges in its consumer contracts are unjust and in breach of the Consumer Act. The claimants are also, similarly as in the above described case of State Inspectorate investigation, contending the Company's billing interval of 60 seconds. The Company has been informed that approximately 42,000 consumers signed a collective petition in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitions would be invalid. The Company's legal advisors have assessed that the maximum exposure with respect to the 42,000 petitioners could amount to approximately HRK 150 million, including interest. The exposure could be greater if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.

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

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

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

28 Contingencies (continued)

b) Billing interval and Consumer Act claims (continued)

In mid September 2007 the Consumer Association was rejected in its request for the prolongation of the execution of HANFA's resolution on Prospectus approval and also with its request filed before the Zagreb Municipality Court for a temporary injunction forbidding the RoC and T-HT collecting further initial public offers for ordinary shares and GDR's. On 20 September 2007 the CA filed two lawsuits against HANFA before the Administrative Court of the Republic of Croatia asking for Prospectus approval nullification including the instruction for process renewal. Early January 2009 the company received the information for its external lawyer that both lawsuits were rejected by the Administrative Court of the Republic of Croatia.

T-HT's lawyers remain of a firm belief that the judgement of the Zagreb Municipality Court from 12 April 2007 will not stand before the Appellation Court provided that an unbiased judge takes the case and no extra-legal influence exists.

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 11), on 16 September 2008 the Company received the lawsuit filed by the Zagreb Digital City Ltd. branch of the Zagreb Holding Ltd. (hereinafter: ZHZDG) against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment in amount of 120 millions HRK plus interest.

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

The Company's attorney in the case of ZHZDG lawsuit who is also the representative of the Company in the ongoing proceedings in front of the Constitutional and Commercial courts, is of a firm belief that petitioner ZHZDG cannot succeed with its claim neither in the part of DTI ownership determination nor in the part of 120 million HRK claimed payment, if the court decision will be based on the positive legislation of the RoC. In March 2008 the Croatian Agency for Post and Electronic Communications (then HAT, now HAKOM) published the Terms for Joint Use of Distributive Telecommunications Infrastructure (DTI), which should serve as a set of rules aimed at (i) clearing up of the present state of affairs and (ii) eliminating future doubts as to joint use of the DTI. If enforced properly, these Terms could bring, to a certain extent, orderliness to the issue.

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

29 Balances and transactions with related parties

The transactions specified in the table below primarily relate to the transactions with the companies owned by Deutsche Telekom AG (DTAG). The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during year ended 31 December 2008 and 2007. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 36 million (2007: HRK 42 million).

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

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

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

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

29 Balances and transactions with related parties (continued)

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

The Group provides telecommunications services to the Government of Republic of Croatia, its departments and agencies and companies owned by the Croatian Government on normal commercial terms and conditions, such as are no more favourable than those available to other customers. The telecommunications services provided to the Government of Republic of Croatia, its departments and agencies and companies owned by the Croatian Government do not represent a significant component of the Group's revenue.

Compensation of the Supervisory Board

As specified by the Company, the chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the proceeding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the proceeding month is paid while any other member receives the amount of one average net salary of the employees of the Company paid in the proceeding month. DTAG representatives do not receive any remuneration for the membership in the Supervision due to a respective policy of DTAG. In the financial year of 2008, the Company paid a total amount of HRK 0.6 million (2007: HRK 0.3m) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

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

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 17) net of provisions for impairment recognised at the balance sheet date.

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

b) Liquidity risk

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

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

Trade and other payables all amounts in HRK millions	Due in 0-30 days	Due in 31-60 days	Due in 61-90 days	Due in 91-120 days	Due in >120 days	Total
Year ended 31 December 2008	1,306	29	42	131	82	1,590
Year ended 31 December 2007	1,346	44	21	18	13	1,442

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

30 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 investments).

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

d) Foreign currency risk

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

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

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

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

30 Financial risk management objective and policies (continued)

e) Fair value estimation

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

f) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007 (see Note 25).

31 Financial instruments

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

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

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

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

32 Service Concession Arrangements

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

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

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

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

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

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

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

These decisions confirmed the existence and validity of HT's rights and authorisations existing under the Concession Agreement for the period of 30 years from entry into the Concession Agreement.

However, on 1 July 2008 a new Law on Electronic Communications, in compliance with EU framework, entered into force and introduced general authorization for all electronic communications services and networks. It should be noted that, as under EU framework, individual licenses are granted for certain modalities of usage of radio-frequencies.

32 Service Concession Arrangements (continued)

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

The new Law terminated the above mentioned Concession Agreement. Additionally, it provides that a person authorized under previously valid regulations continues to provide services in accordance with the provisions of the new Law. However, the concessions (other than mentioned Concession Agreement), licenses and notifications issued in accordance with previously valid regulations remain in force till the NRA issues certificates as required under general authorization regime introduced by new Law on Electronic Communications.

Pursuant to the new Law on Electronic Communications, NRA passed new by-laws on license fees which entered into force on 1 January 2009. However, the by-laws explicitly state that the licenses are to be paid a year in advance. Consequently, for year 2008 the old license fees system remains in force and it provides as follows:

The licensing fees for second and every other consecutive year of the provision of public voice services, leased lines, leasing the telecommunications network or parts thereof, Internet access services, VoIP service, telecommunications services with usage of a free radio-frequency spectrum and other telecommunications services consisting of transmission of voice, sound, data, documents, images and other provided without use of radio frequency spectrum, amount to 0.1% of the total annual revenue, i.e. all invoiced revenues from the last 12 months, accrued from the provision of services. Fees for use of numeration and frequencies are not included in the above license fees, but are paid additionally according to amounts prescribed by the valid regulations. The licences can be terminated or suspended in accordance with the Telecommunications Act.

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

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

32 Service Concession Arrangements (continued)

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

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

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

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

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

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

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

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

32 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 public mobile telecommunications network and to operate public telecommunications services in the third generation system UMTS on the territory of the Republic of Croatia.

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

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

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

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

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

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

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

33 Share-based payment transactions

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

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

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

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

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

The MTIP 2004 expired on 31 December 2006 while MTIP 2005 expired on 31 December 2007. Since the performance target was not met by either MTIP, no payments were made. Until reporting date, the Group has not received any information by DTAG on the final decision with respect to the MTIP of 2006 or any later year.

33 Share-based payment transactions (continued)

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

The duration of IPO MTIP 2008 covers the period from 1 January 2008 to 31 December 2010. The payment of the awarded sum is subject to the achievement of two share value based performance targets. Upon expiry of the term of the plan, the Supervisory Board shall determine whether each of the targets has been achieved. On the basis of the findings of the Supervisory Board the Management Board shall define and announce the level of target achievement.

Both targets are equally weighted and cannot be changed during the IPO MTIP 2008 duration. While the first target is based on the fixed EBITDA multiple, the other target is based on comparison of the share price movement compared to the complex return index. If both targets are achieved, the participants will be rewarded with the total amount of the targeted incentive. If only one target is reached, the participants receive 50 percent of the targeted incentive. The incentive themselves consist of 15 percent, 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2008, depending on the management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual amount of total fixed salary and the amount of variable salary in case of a 100 percent target achievement.

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

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

34 Auditors' fees

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

35 Subsequent events

Croatian Agency for Post and Electronic Communications imposed reduction of interconnection charges in 2009. Estimate of financial effect could not be made until the date of this report.

Starting from 16 January 2009 there is a Finance police review of the GSM and UMTS concession agreement for the period 1 January 2005 until 31 December 2008. The Group assessed and declared no risk thereon and does not expect a material provision in this respect.

No other events or transactions have occurred since 31 December 2008 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Group's affairs to require mention in a note to the financial statements.