Hrvatski Telekom d.d.

Consolidated financial statements

31 December 2010

Contents

Responsibility for the consolidated financial statements

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

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 7 February 2011.

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

7 February 2011

On behalf of the Group,

Ivica Mudrinić
President of the Management Board

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb
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Independent Auditor's Report

To the Shareholders of Hrvatski Telekom d.d.:

We have audited the accompanying consolidated financial statements ("the financial statements") of Hrvatski Telekom d.d. ("HT d.d.", "HT" or the "Parent Company") and its subsidiaries (together, the "Group") which comprise a Consolidated statement of financial position as at 31 December 2010, a Consolidated statement of comprehensive income, a Consolidated statement of changes in equity, a Consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 5 to 63).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Group as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

Independent Auditor's Report (continued)

Emphasis of Matter

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

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

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

Competition / Regulatory matters

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

Consumer Act claims

As explained in more detail in Note 29 b), HT is involved in legal proceedings related to the alleged breach of the Consumer Protection Act in regard to the method of charging voice services and in regard to the monthly access charges. The claimants are residential customers of HT together with the consumer protection association. The outcome of these matters is uncertain and may have a material effect on HT.

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

Ernst & Young d.o.o.

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

Slaven Đuroković
Certified Accountant and director

7 February 2011

Consolidated statement of comprehensive income
For the year ended 31 December 2010

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

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

Consolidated statement of financial position
As at 31 December 2010

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

Consolidated statement of financial position (continued)

As at 31 December 2010

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

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

Signed on behalf of HT Group on 7 February 2011:

Ivica Mudrinić

Hrvatski Telekom

Hrvatski Telekom d.d.
Zagreb

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Jürgen P. Czapran

Consolidated statement of cash flows
For the period ended 31 December 2010

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

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

Consolidated statement of changes in equity
For the year ended 31 December 2010

	Issued capital HRK millions (Note 24)	Legal reserves HRK millions (Note 25)	Fair value reserves HRK millions	Retained earnings HRK millions (Note 26)	Total HRK millions
Balance as at 1 January 2009	8,189	409	(1)	3,843	12,440
Paid dividends	-	-	-	(2,456)	(2,456)
Profit for the year	-	-	-	2,024	2,024
Other comprehensive income	-	-	(2)	6	4
Balance as at 31 December 2009	8,189	409	(3)	3,417	12,012
Paid dividends	-	-	-	(2,788)	(2,788)
Profit for the year	-	-	-	1,831	1,831
Other comprehensive income	-	-	2	(3)	(1)
Balance as at 31 December 2010	8,189	409	(1)	2,457	11,054

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

1 Corporate information

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

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

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

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

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

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

2.1. Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value (Note 15), as disclosed in the accounting policies hereafter.

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

The consolidated financial statements include the financial statements of Hrvatski Telekom d.d. and the following subsidiaries:

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

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

2.2. Changes in accounting policies and disclosures

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

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

- IFRS 2 *Share-based Payments*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

On 12 November 2009, the IASB issued *IFRS 9 Financial Instruments* as the first step in its project to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2013, with early adoption permitted. On 28 October 2010 the IASB issued amendments to IFRS 9 to address the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. This completed the first phase of the Board's project to replace IAS 39. In the subsequent phases, the IASB will address impairment methodology and hedge accounting. The completion of this project is expected in 2011. The Group does not expect IFRS 9 to have an impact on the financial statements. The Group plans to adopt this new standard on its effective date.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

2.2. Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

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

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

IAS 12 – Income Taxes

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

IFRS 7

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

Improvements to IFRSs (issued in May 2010)

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

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

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

2.3. Significant accounting judgments, estimates and assumptions

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

Fair value measurement of contingent consideration

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

Provisions and contingencies

The Group is exposed to a number of legal cases and regulatory proceedings that may result in significant outflow of economic resources. The Group uses internal and external legal experts to assess outcome of each case and makes judgments if and what amount needs to be provided for in the financial statements as more explained in Notes 23 and 29.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The Group's impairment test for Goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next ten years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Further details including carrying values and effects on the result of the period are given in Notes 11 and 12.

Revenue recognition – T-Club loyalty program

The Group estimates the fair value of points awarded under the T-Club program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As at 31 December 2010, the estimated liability for unredeemed points was approximately HRK 95 million (31 December 2009: HRK 70 million) (Note 22).

2.4. Summary of accounting policies

a) Operating profit

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

b) Business Combinations and Goodwill

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

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

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

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

c) Investments in associates

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

2.4. Summary of accounting policies (continued)

d) Interest in joint venture

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

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

e) Intangible assets

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

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

Useful life of intangible assets is as follows:

UMTS licences	20 years
Patents and concessions	5 - 10 years
Right of way for Distributive Telecommunication Infrastructure (DTI)	30 years
Software and other assets	5 years

2.4. Summary of accounting policies (continued)

f) Property, plant and equipment

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

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

After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is computed on a straight-line basis.

The useful life of newly acquired assets is as follows:

Buildings	10 - 50 years
Telecom plant and machinery	
Cables	8 - 18 years
Cable ducts and tubes	30 years
Other	2 - 15 years
Tools, vehicles, IT and office equipment	4 - 10 years
Other property, plant and equipment	2 - 30 years

Land is not depreciated.

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

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

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

2.4. Summary of accounting policies (continued)

g) Impairment of assets

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

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

h) Goodwill

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

Impairment is determined for goodwill by assessing the recoverable amount, based on value in use estimations, of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. Please see Note 16 for more details.

i) Inventories

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

2.4. Summary of accounting policies (continued)

j) Receivables

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

k) Foreign currencies

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

l) Operating leases

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

m) Taxation

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

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

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

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

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

n) Employee benefit obligations

The Group provides other long-term employee benefits (see Note 21). These benefits include retirement and jubilee (length of service) payments, and are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

2.4. Summary of accounting policies (continued)

n) Employee benefit obligations (continued)

Past service costs are recognised in other comprehensive income immediately in the period in which they occur. Gains or losses on the curtailment or settlement of benefit plans are recognised when the curtailment or settlement occurs. The benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. Gains and losses resulting from changes in actuarial assumptions are recognised in other comprehensive income in the period in which they occur.

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

o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements with the exception of the provision of its telecommunications infrastructure to third parties that offer value added services to its customer. In these cases, the Group is acting as an agent.

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

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

Revenue from mobile telephony includes revenue from installation, monthly fee and call charges for post-paid mobile customers, call charges for pre-paid mobile customers, call charges for customers of international mobile operators when roaming on the Company's mobile network, sale of mobile handsets and domestic interconnection revenues related to mobile network.

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

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

2.4. Summary of accounting policies (continued)

o) Revenue recognition (continued)

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

Revenues from the provision of its network to the provider of value added services are reported on a net basis. Revenues are exclusively the amount of the commission received.

Revenue from dividends is recognised when the Group's right to receive the payment is established.

Interest revenue is recognised as interest accrues (using the effective interest rate that is the rate that exactly discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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

p) Cash and cash equivalents

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

q) Borrowings

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

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

2.4. Summary of accounting policies (continued)

r) Investments

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

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

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

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

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

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

s) Provisions

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

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

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

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 34. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

v) Events after reporting period

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

3 Business combinations

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

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

3 Business combinations (continued)

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

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

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

Cash flow on acquisition:

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

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

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

4 Segment information

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

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

T-Mobile provides mobile telephony.

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

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

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

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

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

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

4 Segment information (continued)

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

4 Segment information (continued)

Revenue – by geographical area

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

5 Service expenses

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

6 Depreciation, amortisation and impairment of non-current assets

	2010 HRK millions	2009 HRK millions
Depreciation	1,006	1,029
Amortisation	344	336
	1,350	1,365
Impairment loss	65	36
	1,415	1,401

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

7 Redundancy expenses

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

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

8 Other expenses

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

9 Taxation

a) Tax on profit

	2010 HRK millions	2009 HRK millions
Current tax expense	455	528
Deferred tax expense	(11)	14
Taxation	444	542

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

	2010 HRK millions	2009 HRK millions
Profit before taxes	2,275	2,566
Income tax at 20% (domestic rate)	455	513
Tax effects of not taxable income:		
Dividends received and incentives	(2)	(2)
Related to provision for bad debts and value adjustment	(18)	(7)
Revenues taxed in previous years	(4)	(4)
Lower depreciation	(4)	(5)
Other	(1)	(6)
Tax effects of expenses not deductible in determining taxable profits:		
Tax for previous years	(12)	10
Provision for bad debt, value adjustment and accruals	24	9
Entertainment expenses and car usage	4	4
Other	13	16
Deferred tax expense	(11)	14
Taxation	444	542
Effective tax rate	19.52%	21.12%

9 Taxation (continued)

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

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

The deferred tax asset of the Group arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in that year. Of this amount, HRK 334 million became tax deductible in the period from 2002 to 2010, and the remaining HRK 61 million will be tax deductible in future periods.

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

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2011 for the 2010 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until the absolute statute of limitation of 6 years expires.

10 Earnings per share

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

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

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

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

11 Intangible assets

	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2009	608	1,510	91	79	2,288
Additions	72	198	16	99	385
Transfers	41	97	4	(142)	-
Transfers from property, plant and equipment	-	62	-	53	115
Disposal	(44)	(56)	-	-	(100)
At 31 December 2009	677	1,811	111	89	2,688
Acquisition of a subsidiary (Note 3)	-	-	74	-	74
Additions	6	149	5	90	250
Transfers	(399)	517	(8)	(110)	-
Transfers from property, plant and equipment	-	35	-	-	35
Disposals	(3)	(3)	-	-	(6)
At 31 December 2010	281	2,509	182	69	3,041
Accumulated amortisation					
At 1 January 2009	369	921	26	-	1,316
Charge for the year	65	253	18	-	336
Impairment loss	7	15	-	-	22
Transfers from property, plant and equipment	-	62	-	-	62
Disposals	(22)	(47)	-	-	(69)
At 31 December 2009	419	1,204	44	-	1,667
Charge for the year	45	267	32	-	344
Transfers from property, plant and equipment	-	35	-	-	35
Transfers	(318)	326	(8)	-	-
Disposals	(3)	(2)	-	-	(5)
At 31 December 2010	143	1,830	68	-	2,041
Net book value					
At 31 December 2009	258	607	67	89	1,021
At 31 December 2010	138	679	114	69	1,000

11 Intangible assets (continued)

The intangible assets of the Group as of 31 December 2010 include the UMTS licence with the carrying value of HRK 94 million (31 December 2009: HRK 101 million). The UMTS licence is amortised over a period of 20 years (starting from June 2005).

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

Additions of intangible assets

Major additions in the reporting period relate to UMTS/GSM related software and user licences in the amount of HRK 60 million, internal reporting software of HRK 14 million, software for business process management and optimization of HRK 14 million, billing software of HRK 6 million, applicative software of HRK 8 million, office software of HRK 5 million and billing software in the shops of HRK 2 million.

Impairment loss

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

12 Property, plant and equipment

	Land and buildings 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 2009	1,790	9,974	966	825	13,555
Additions	84	759	44	281	1,168
Transfers	67	475	55	(597)	-
Transfers to intangible assets	-	(62)	-	(53)	(115)
Disposals	(3)	(58)	(65)	22	(104)
At 31 December 2009	1,938	11,088	1,000	478	14,504
Acquisition of a subsidiary (Note 3)	-	-	7	1	8
Additions	62	515	50	276	903
Transfers	100	49	188	(337)	-
Transfers to intangible assets	-	(35)	-	-	(35)
Disposals	(2)	(287)	(69)	(7)	(365)
At 31 December 2010	2,098	11,330	1,176	411	15,015
Accumulated depreciation					
At 1 January 2009	730	5,773	618	6	7,127
Charge for the year	94	826	109	-	1,029
Impairment loss	-	10	4	-	14
Transfers to intangible assets	-	(62)	-	-	(62)
Disposals	(2)	(54)	(54)	(1)	(111)
At 31 December 2009	822	6,493	677	5	7,997
Charge for the year	103	774	129	-	1,006
Impairment loss	-	46	4	15	65
Transfers to intangible assets	-	(35)	-	-	(35)
Transfers	-	(103)	103	-	-
Disposals	(1)	(283)	(66)	(4)	(354)
At 31 December 2010	924	6,892	847	16	8,679
Net book value					
At 31 December 2009	1,116	4,595	323	473	6,507
At 31 December 2010	1,174	4,438	329	395	6,336

Included within assets under construction of the Group are major spare parts of HRK 53 million (31 December 2009: HRK 35 million), net of a provision of HRK 10 million (31 December 2009: HRK 4 million).

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

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

12 Property, plant and equipment (continued)

Impairment loss

In 2010, the Group recognised an impairment loss of property, plant and equipment of HRK 65 million (2009: HRK 14 million) due to transfer to a new technology. The recoverable amount of that equipment is its fair value less costs to sell, which is based on the best information available to reflect the amount that the Group could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

The disposal of the Company's property, plant and equipment primarily relates to the disposal of telecom machinery, old tools, IT and office equipment of HRK 160 million and disposal of technical platform for prepaid customers of HRK 192 million (all values stated as gross book values).

Ownership over ducts

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

The Company formed the Documentation and Infrastructure Operations Department that is responsible to assure that all network technology related assets are properly legalised, documented and that this documentation is available to all relevant departments and authorities. The overall process is slow and complex since the registration depends not only on HT but also on local and state authorities. Since the year 2006 the actions of HT have been concentrated on the conclusion of "right of servitude" contracts with local municipalities and "right of use" contracts with Croatian and County Roads. HT has concluded "right of servitude" contracts with following cities: Rijeka, Dubrovnik, Varaždin, Čakovec, Gospić, Požega, Pula, Bjelovar, Slavonski Brod, Krapina, Karlovac, Šibenik, Vukovar, Virovitica, Zadar, Sisak (partially), Osijek (partially) and many other smaller cities and communities. Negotiations regarding conclusion "right of servitude" contracts with Koprivnica, Osijek (remaining part) and Zagreb are expected to be finished during 2011. HT has also concluded "right of use" contracts with the state owned companies Croatian Roads (for all of roads under their management) and with County Roads (19 of 20 counties).

12 Property, plant and equipment (continued)

Ownership over ducts (continued)

In connection with the offer for sale of ordinary shares held by the Government of Republic of Croatia (RoC) in 2007, the Government of RoC, the Company and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Inter alia this provides the underlying principles under which right of way charges and shared usage issues will be based.

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

The Law on Electronic Communications effective from 1 July 2008 addresses this issue to a great extent in line with commitments spelled out in the Memorandum of Understanding. However, it is possible that difficulties and challenges will arise in the current process of passing subordinate regulations under the 2008 Law by the Croatian Agency for Post and Telecommunications ("Agency"). In December 2008 the Agency passed an Ordinance on Manner and Conditions for Access and Joint Use of Electronic Communications Infrastructure and Related Equipment (Official Gazette No. 154/08 effective as at 6 January 2009) which replaces the Terms for Joint Use and regulates the issue in similar manner. In February 2009 the Agency passed an Ordinance on Certificate and Fees for the Right of Way (Official Gazette No. 31/09 effective as of 19 March 2009), regulating the conditions for issuance of certificate and fees for right of way. The fees for right of way are determined, depending on the nature of the land in use, in the amount from 4 to 10 HRK/m^2.

In accordance with these Ordinances the Agency started issuing certificates for the rights of way for certain routes in the city of Zagreb to HT. The Company believes that the issued certificates for the rights of way might help HT in the lawsuit filed by Zagrebački Holding Zagrebački Digitalni Grad (ZHZDG)(Note 29).

Law on amendments of Law on public roads (Official Gazette No. 153/09) effective from December 2009 obliges HT to conclude "right of servitude" contracts for electronic communication infrastructure inside road corridor within 12 months period i.e. by the end of 2010. New Law on public roads is currently in preparation and it passed first reading in Croatian Parliament. This new Law prolongs the period for concluding "right of servitude" contracts at lease 12 more months, ie. by the end of 2011.

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

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

12 Property, plant and equipment (continued)

Ownership over ducts (continued)

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

The net book value of all the Group's ducts as at 31 December 2010 is HRK 889 million (31 December 2009: HRK 887 million).

13 Investments in associate

The net book value of investments in associate comprises:

	31 December 2010 HRK millions	31 December 2009 HRK millions
HP d.o.o. Mostar	2	2
	2	2

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

The movement in investments in associates of the Group during the year ended 31 December 2010 and during the year ended 31 December 2009 was as follows:

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

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

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

	2010 Unaudited	2009 Audited
Share of the associate revenue and profit:		
Revenue	31	32
Profit	2	-

14 Investment in joint venture

The net book value of investments in joint venture comprises:

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

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

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

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

Share of the jointly controlled entity statement of financial position:	31 December 2010 Unaudited HRK millions	31 December 2009 Audited HRK millions
Current assets	89	70
Non-current assets	567	623
Current liabilities	(85)	(155)
Non-current liabilities	(112)	(95)
Net assets	459	443

	2010 Unaudited	2009 Audited
Share of the jointly controlled entity revenue and profit:		
Revenue	377	354
Profit	11	9

15 Available-for-sale investments

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

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

Current available-for-sale investments include the following:

				31 December 2010 HRK millions	31 December 2009 HRK millions
Unit holdings in money market funds:				20	-
Bonds:					
Government of Germany	EUR	1.25%	11 March 2011	74	-
Government of France	EUR	3.00%	12 January 2010	-	37
Government of the Netherlands	EUR	3.00%	15 January 2010	-	37
Government of Germany	EUR	3.00%	12 March 2010	-	73
Government of Germany	EUR	3.25%	9 April 2010	-	37
Foreign treasury bills:					
Government of France	EUR	1.00%	21 April 2011	96	-
Government of France	EUR	1.00%	24 March 2011	74	-
Government of France	EUR	1.00%	19 May 2011	88	-
Government of France	EUR	1.00%	5 May 2011	37	-
Government of Germany	EUR	1.00%	23 February 2011	37	-
Government of Germany	EUR	1.00%	11 May 2011	37	-
Government of Germany	EUR	1.00%	12 May 2010	-	73
				463	257

The estimated fair value of investments in treasury bills and bonds at 31 December 2010 is determined by reference to their market value offered on the secondary capital market which is an active market at the statement of financial position date and belong to the first financial instruments hierarchy category. No changes among financial instruments hierarchy categories.

16 Impairment testing of goodwill

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

The recoverable amount of the T-Com unit has been determined based on the value in use calculation using cash flow projections from financial budgets covering a ten-year period. The post-tax discount rate applied to cash flow projections is 11.0% (2009: 10.93%) and cash flows beyond the ten-year period are extrapolated using a 2.0% growth rate (2009: 2.0%).

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

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

17 Inventories

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

18 Trade and other receivables

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

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	31-60 days	61-90 days	91-120 days	>120 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
31 December 2010	1,422	920	288	101	39	23	51
31 December 2009	1,392	953	296	76	38	19	10

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

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

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

19 Cash and cash equivalents and time deposits

a) Cash and cash equivalents

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

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

b) Time deposits with maturities more than 3 months

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

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

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

20 Trade and other payables

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

21 Employee benefit obligations

Other long-term employee benefits include retirement and jubilee (length of service) payments. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and determined in the amount of six average monthly salaries paid to employees in the preceding month. Jubilee benefits are paid in the fixed amount depending on the number of years of service in the Group.

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

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

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

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

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

22 Deferred income

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

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

23 Provisions for legal cases and other provisions

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

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

24 Issued capital

Authorised, issued, fully paid and registered share capital

	31 December 2010 HRK millions	31 December 2009 HRK millions
81,888,535 ordinary shares of HRK 100 each	8,189	8,189

The number of shares in issue remained unchanged between 1 January 1999 and 31 December 2010.

25 Legal reserves

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

26 Retained earnings

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

27 Other accruals

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

28 Commitments

a) Operating lease commitments

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

Operating lease charges:

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

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

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

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

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

29 Contingencies

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

a) Competition / Regulatory matters

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

VIPnet d.o.o. complained to the Competition Agency regarding Frame Agreements that HT and T-Mobile Croatia d.o.o. signed with our key and large business clients that allegedly contain anti competitive clauses. The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Law on Protection of Market Competition. The Group had delivered to the Agency all requested Frame Agreements and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceedings for assessing whether the Company and T-Mobile Croatia d.o.o. have abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Agency brought decision stating that the Company and T-Mobile abused their dominant position by conclusion of these Frame Agreements. The Agency ordered modification of some provisions in several of the analyzed Frame Agreements and this request has been fulfilled by the Group.

The Group also used its right to challenge it before the Administrative Court. On 23 December 2010 the Administrative Court rejected the claim raised by the Group and the Agency's decision became final and non-appealable.

As required by the Competition Act, misdemeanour proceeding has been initiated and is still pending. The plaintiff was ordered by the Court to submit data regarding total turnover of the Company and T-Mobile Croatia d.o.o. from 2002-2006 and data on market shares of the Company and T-Mobile Croatia d.o.o. acquired on relevant markets. The penalty for violations of the Law on Protection of Market Competition could amount up to 10% of the annual Company turnover of the financial year preceding the year in which the infringement was committed.

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

29 Contingencies (continued)

a) Competition / Regulatory matters (continued)

Amis claim in front of Croatian Competition Agency

Amis Telekom submitted a complaint to the Competition Agency against HT and Iskon claiming that HT and Iskon concluded an agreement on the retail price of broadband internet access service. Amis Telekom also complains that HT and its subsidiary, Iskon, abuse their dominant position on the market by providing their services under predatory prices. HT submitted written defence challenging Amis Telekom's statements and showing that no abuse of dominant position occurred.

On 17 July 2009 the Competition Agency started formal proceedings. In the formal proceedings, the Competition Agency shall undertake a detailed economical analysis, in order to determine whether an abuse exists. From current practice of the Competition Agency it cannot be assessed when an economical analysis will be finalized and when the final decision will be passed.

In case that the Competition Agency finds that HT and /or Iskon did abuse its dominant position on the relevant markets, the Competition Agency would submit a request to initiate the proceedings before the Misdemeanour Court, in order to determine whether an offence was committed and subsequently to decide on the amount of pecuniary fines. Also, all profits HT gained from the provisioning of the service in question could be seized.

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

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

On 17 July 2009, HAKOM passed decision regarding the analysis of the wholesale bitstream access service by which HT is designated as an operator having significant market power on the relevant market, through which certain regulatory obligations have been defined, including the obligation to publish a Bitstream Standard Offer within the transparency obligation.

On 4 May 2010 HAKOM initiated a supervision relating to distinction between "existing" and "new" end-users in HT's Bitstream Standard Offer, claiming that such distinction is contrary to both the HAKOM's decision dated 17 July 2009, as well as the decision of HAKOM dated 12 March 2010, in which percentage of discount by which HT's retail prices should be reduced in order to form wholesale prices within the Bitstream Standard Offer for all users has been determined in the amount of 40%.

Despite arguments mentioned in HT's response, HAKOM issued a decision on 3 August 2010, ordering HT to erase the mentioned distinction between "existing" and "new" end-users in its Bitstream Standard Offer. In accordance with the deadlines in that decision, HT published its modified Bitstream Standard Offer and subsequently filed a claim against the mentioned decision with Administrative Court on 2 September 2010.

29 Contingencies (continued)

a) Competition / Regulatory matters (continued)

HAKOM's supervision on Bitstream Standard offer (continued)

On 29 October 2010 HT received the Misdemeanour indictment against HT and a responsible person, filed with the Misdemeanour Court by HAKOM. The Misdemeanour Court proceedings are pending and next hearing is not jet scheduled.

In the Misdemeanour Indictment, HAKOM proposed that HT should be fined with penalty in the amount of 1% of yearly turnover gained by providing electronic communication networks and services in the year preceding the year in which the offence was committed. On the basis of the results for 2008, 1% of the turnover would amount to HRK 88 million. Due to lack of track record of the level of fines that might be levied makes it impossible to form a reliable judgment about the fines that might actually be levied if HT's arguments prove unsuccessful.

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

Croatian Post and Electronic Communications Agency (HAKOM), at the request of Metronet telekomunikacije d.d., initiated supervision to inquire whether imposed regulatory obligation regarding retail price for publicly available telephone service is being applied by HT.

In order to conduct the supervision HAKOM, required delivering of written statement on discount policy and copies of existing agreements (both frame agreements and individual subscriber contracts) signed with various business customers regarding publicly available telephone service; list of all business customers to whom publicly available telephone service is being provided; and data on total revenue achieved by each business customer in 2009. Following this HAKOM's request HT delivered required documentation.

On 26 August 2010 HAKOM passed a resolution stating that HT did not comply with the regulatory obligation determined in the Telecommunication Act and Electronic Communication Act and prohibiting the following: (i) further offering, contracting and provisioning of the services under the prices below the prices approved by the HAKOM for the services under investigation in regards to Zagrebački holding; (ii) further offering and contracting special benefits in a form of quantity discounts. The quantity discounts could be applied if applied transparently, in a non-discriminatory manner, and if the achieved savings are allocated to the customers. Furthermore, the HAKOM requested information on actions undertook pursuant the resolution.

HT challenged the resolution by submitting a lawsuit to the Administrative Court. However, since this law suit does not relieve HT from complying with the resolution, HT informed the HAKOM that it had complied with the resolution and had stopped offering and contracting current quantity discounts scheme.

29 Contingencies (continued)

a) Competition / Regulatory matters (continued)

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

On 27 October 2010 HAKOM informed HT that it finds that HT had not complied with the item (ii) of the resolution passed on 26 August 2010. HAKOM determined additional deadline of 8 days for HT to comply with the resolution and imposed administrative measure in total amount of HRK 76,770.00 on all Members of the Management Board. HT believes that it complied with the resolution within the new deadline. However, HAKOM may initiate misdemeanour proceedings before the Misdemeanour Court, or issue a misdemeanour warrant. Fines prescribed for such offence range from 1% to a maximum of 5% of the total annual gross revenue generated from the provision of electronic communication networks and services in the year preceding the year in which the offence was committed. The lack of recorded examples of the level of fines that might be levied regarding the mentioned proceedings makes it impossible for HT to form a judgment as to the fines that might be levied if HT arguments prove unsuccessful.

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

b) Consumer Act claims

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

However, there has been no development on this issue since mid 2004. Besides, a Bylaw on telecommunication services which was brought into force as of 1 January 2005 requires the Company to introduce at least one tariff package that will have a billing interval of 1 second. Immediately after the Bylaw on telecommunication services has entered into force, HT had introduced a new tariff system with per second billing interval. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than 1 second which was the subject of the State Inspectorate investigation.

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

29 Contingencies (continued)

b) Consumer Act claims (continued)

On 12 April 2007, the Municipal Court in Zagreb announced a judgment against the Company and in favour of the six claimants resulting in a potential settlement of HRK 12 thousand for the period claimed for and including interest to 30 June 2007.

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

The Company has been informed that approximately 42,000 consumers signed a collective petition in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitioners would be invalid. The maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 110 million, including interest. The exposure could be greater than this if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.

The Company vigorously denies the adequacy of these claims. It believes that it should win on appeal. Management and HT's legal advisers consider that this claim is without merit and the Company considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.

Since the judgment has been made, five members of the Consumer Association filed individual claims before the Zagreb Municipality Court based on the same substance. Both HT and State Attorney objected. The Company believes that individual claims cannot even be discussed while the substance stands under appeal within the Consumer Fraud Litigation.

The Company's lawyers remain of a firm belief that the Appellate Court will accept the Company's appeal.

29 Contingencies (continued)

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 12), on 16 September 2008 the Company received a lawsuit filed by the Zagreb Digital City Ltd. branch of the Zagreb Holding Ltd. (hereinafter: ZHZDG) against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment of HRK 120 million plus interest.

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

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

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

No adjustments have been made to these consolidated financial statements relating to any of these matters referred above in the sections a), b) and c).

30 Balances and transactions with related parties

The transactions specified in the table below primarily relate to transactions with the companies owned by Deutsche Telekom AG (DTAG). The Group enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during year ended 31 December 2010 and 2009. Further, DTAG and T-Mobile Germany provided technical assistance to the Group of HRK 13 million (2009: HRK 30 million).

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

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

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

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

30 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 substantial portion of its business is transacted with the Croatian Government, its departments and agencies and companies owned by the Croatian Government.

Compensation of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average net salary of the employees of the Company paid in the preceding month. To the deputy chairman, the amount of 1.25 of the average net salary of the employees of the Company paid in the preceding month is paid, while any other member receives the amount of one average net salary of the employees of the Company paid in the preceding month. To a member of the Supervisory Board who is in the same time the Chairman of the Audit Committee of the Supervisory Board in the amount of 1.5 of the average monthly net salary of the employees of the company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Audit Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the company paid in the preceding month. To a member of the Supervisory Board who is in the same time a Member of the Compensation and Nomination Committee of the Supervisory Board in the amount of 1.25 of the average monthly net salary of the employees of the company paid in the preceding month. DTAG representatives do not receive any remuneration for the membership in the Supervisory Board due to a respective policy of DTAG.

In 2010, Group paid a total amount of HRK 0.6 million (2009: HRK 0.8 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

In 2010 the total compensation paid to key management personnel of the Group amounted to HRK 40 million (2009: HRK 49 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries and the operating directors of the Company, who are employed by the Group.

31 Financial risk management objectives and policies

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

a) Credit risk

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

The Group does not guarantee obligations of other parties.

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

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

b) Liquidity risk

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

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

Trade and other payables all amounts in HRK millions	Due in 0-30 days	Due in 31-60 days	Due in 61-90 days	Due in 91-120 days	Due in >120 days	Total
Year ended 31 December 2010	1,441	32	24	6	26	1,529
Year ended 31 December 2009	1,379	19	43	8	10	1,459

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

31 Financial risk management objectives 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 available-for-sale investments, cash and cash equivalents and time deposits.

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

	Increase/decrease in basis points	Effect on profit before tax HRK millions
Year ended 31 December 2010		
Croatian Kuna	+100	8
	-100	(8)
Euro	+100	4
	-100	(4)
Year ended 31 December 2009		
Croatian Kuna	+100	26
	-100	(26)
Euro	+100	6
	-100	(6)

d) Foreign currency risk

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

A significant amount of deposits in the banks, available for sale investments and cash equivalents are made in foreign currency, primarily in Euro. The purpose of these deposits is to hedge foreign currency denominated liabilities and liabilities indexed to foreign currencies from changes in the exchange rate. The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities.

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

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

f) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009 (see Note 26).

32 Financial Instruments

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

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

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

33 Authorization for Services and Applicable Fees

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

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

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

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

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

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

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

33 Authorization for Services and Applicable Fees (continued)

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

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

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

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

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

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

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

c) Fees for providing electronic communications services

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

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

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

33 Authorization for Services and Applicable Fees (continued)

d) Audiovisual and electronic media services

Pursuant to the Law on Audio-visual Services, which entered into force on 31 July 2007, HT d.d. is obliged to pay the fee of 1% of the annual gross revenues realized from the provision of audio-visual services, to the state budget of the Republic of Croatia as a contribution to the funding of National Programme for Promotion of Audio-visual Works. The final amount of the fee to be paid and scope of the services subject to the fee shall be defined during 2011.

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

e) Electronic communications infrastructure and associated facilities

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

34 Share-based payment transactions

Various mid-term incentive plans (MTIPs) exist at HT Group level to ensure competitive total compensation for members of the Management Board, senior executives and other beneficiaries. The plans promote the medium and long-term value enhancement of the Group, thus aligning the interests of management and shareholders. First HT's MTIP is introduced in 2008. MTIP is generally set up as a cash-based plan linked to two equally weighted, share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

The duration of MTIP 2008 covers the period from 1 January 2008 to 31 December 2010, MTIP 2009 covers the period from 1 January 2009 to 31 December 2011, while MTIP 2010 covers the period from 1 January 2010 to 31 December 2012. The payment of the awarded sum is subject to the achievement of two share value based performance targets. Upon expiry of the term of the plan, the Supervisory Board of the Company shall determine whether each of the targets has been achieved. Based on the findings of the Supervisory Board, the Management Board shall determine and announce the level of target achievement.

For HT MTIP 2008, both targets are equally weighted and cannot be changed during the MTIP duration. While the first target is based on a fixed EBITDA multiple, the other target is based on the comparison of the share price movement compared to the complex return index. HT MTIP 2009 and HT MTIP 2010 also have two targets which are equally weighted and cannot be changed during the MTIP duration. In contrast to HT MTIP 2008, both targets are linked to the development of the Company's share price. One target is based on the increase of the share price by a certain percentage; the second target is related to the share price movement compared to the complex return index.

If only one target of HT Group's MTIPs is reached, the participants receive 50 percent of the targeted incentive. The incentives themselves consist of 15 percent, 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2008 for HT MTIP 2008 and 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2009 for HT MTIP 2009, and on January 2010 for HT MTIP 2010 depending on the management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual amount of total fixed salary and the amount of variable salary in case of a 100 percent target achievement.

34 Share-based payment transactions (continued)

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

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

35 Auditor's fees

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

36 Events after reporting period

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