HT - Hrvatske telekomunikacije d.d.

Financial statements

31 December 2009

Contents

General information

Supervisory Board

The members of the Supervisory Board who served during 2009 and subsequently are as follows:

Guido Kerkhoff	Chairman	From 21 April 2009
Michael Günther	Chairman	Member from 24 October 2001 Chairman from 12 February 2007 to 21 April 2009
Ivica Mišetić	Deputy chairman	Member from 21 April 2008 Deputy chairman from 8 May 2008
Steffen Roehn	Member	From 21 April 2009
Fridbert Gerlach	Member	From 23 April 2007
Siegfried Pleiner	Member	From 16 October 2002
Dr. Ralph Rentschler	Member	From 15 December 2003
Kathryn Walt Hall	Member	From 21 April 2008
Slavko Leban	Member	From 21 April 2008
Josip Pupić	Member	From 9 October 2004

Management Board

The members of the Management Board who served during 2009 and subsequently are as follows:

Ivica Mudrinić	President	From 1 January 1999
Jürgen P. Czapran	Member	From 12 February 2007
Božidar Poldrugač	Member	From 15 March 2007
Irena Jolić Šimović	Member	From 1 August 2006
Rainer Rathgeber	Member	Until 29 September 2009
Branka Skaramuča	Member	From 1 October 2008

General information (continued)

Responsibility for the financial statements

Pursuant to the Croatian Accounting Act in force, the Board is responsible for ensuring that 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 Company for that period.

The Board has a reasonable expectation that the Company 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 financial statements.

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

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

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

The accompanying financial statements were approved for issuance by the Management Board on 8 February 2010.

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

8 February 2010

On behalf of the Company,

Ivica Mudrinić
President of the Management Board

Independent Auditor's Report

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

We have audited the accompanying financial statements ("the financial statements") of HT – Hrvatske telekomunikacije d.d. ("HT d.d." or "T-HT") which comprise a statement of financial position as at 31 December 2009, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 7 to 57).

Management Responsibility

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 Company'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 Company'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 Company as at 31 December 2009 and of the results of its operations and cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditor's Report (continued)

Emphasis of Matter

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

Ownership over and right to use ducts and Claim by City of Zagreb

As explained in more detail in Note 10, part of T-HT's assets (including the ducts as part of infrastructure) does not have all necessary documents required under Croatian legislation and a major part is still not registered in the land registry. In this regard intrusions in T-HT ducts by competitors and some claims of ownership over these assets made by local authorities (primarily the City of Zagreb who is claiming the ownership over ducts on the area of the City of Zagreb and demanding a payment in amount of HRK 120 million plus interest, as explained in more detail in Note 27 c)), may have a material effect on the financial statements in the case that T-HT will not be able to legally prove its ownership rights.

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

Dominant position abuse

As explained in more detail in Note 27 a), there have been several complaints made by T-HT's competitors towards the Competition Protection Agency and Croatian Telecommunications Agency in regard to T-HT's alleged abuse of dominant position. Several proceedings are in progress.

T-HT is vigorously defending these matters. There is no history of significant settlements in Croatia under either the Competition Law or imposed by misdemeanour courts. Due to lack of relevant practice and due to the fact that the proceedings are still in progress, T-HT is not able to positively determine the likelihood of the possible outcome of these cases, however management believes that any settlement if ultimately required on final resolution will be significantly less than maximum penalties outlined in Note 27 a).

Consumer Protection Act

As explained in more detail in Note 27 b), T-HT is involved in legal proceedings for the alleged breach of the Consumer Protection Act in regard to the method of charging voice services and in regard to monthly access charges. The claimants are residential customers of T-HT as well as the consumer protection association. T-HT has filed a counteraction and proceedings are in progress.

Independent Auditor's Report (continued)

Emphasis of Matter (continued)

Consumer Protection Act (continued)

Management and T-HT's legal advisers consider that these claims are without merit and the T-HT considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government.

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

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

Slaven Đuroković

8 February 2010

Statement of comprehensive income
For the year ended 31 December 2009

	Notes	2009 HRK millions	2008 HRK millions
Rendering of services		4,798	4,997
Sale of goods		155	142
Revenue	3	4,953	5,139
Other operating income		175	212
Merchandise, material and energy expenses		(505)	(504)
Service expenses	4	(977)	(1,109)
Employee benefits expenses		(1,028)	(939)
Gross salaries		(663)	(671)
Taxes, contributions and other payroll costs		(206)	(213)
Redundancy expenses	6	(148)	(45)
Other long-term employee benefits	19	(11)	(10)
Work performed by the Company and capitalised		140	135
Depreciation and amortisation	5	(879)	(862)
Impairment of non-current assets	5	(3)	(13)
Write down of current assets		(42)	(27)
Other expenses	7	(847)	(861)
Total operating costs		(4,141)	(4,180)
Operating profit		987	1,171
Interest income		177	253
Financial expense		(33)	(25)
Dividend income from subsidiary		-	1,003
Income from investment in joint venture		4	-
Profit before taxes		1,135	2,402
Taxation	8	(239)	(298)
Profit for the year		896	2,104
Other comprehensive income			
Valuation losses from available for sale financial assets	14	(2)	(3)
Other		6	11
Other comprehensive income for the year, net of tax		4	8
Total comprehensive income for the year, net of tax		900	2,112

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

Statement of financial position
As at 31 December 2009

	Notes	31 December 2009 HRK millions	31 December 2008 HRK millions
ASSETS			
Non-current assets			
Intangible assets	9	426	434
Property, plant and equipment	10	5,322	5,173
Investment in subsidiaries	11	1,580	1,580
Investment in associate	12	2	2
Investment in joint venture	13	335	335
Available-for-sale investments	14	32	30
Non-current loans given to subsidiary		227	172
Non-current receivables		32	36
Deferred tax asset	8	31	40
Total non-current assets		7,987	7,802
Current assets			
Inventories	15	193	212
Trade and other receivables	16	811	745
Receivables from subsidiaries		103	88
Prepayments and accrued income		19	51
Income tax prepayments		45	41
Available-for-sale investments	14	146	42
Time deposits	17 b)	1	211
Cash and cash equivalents	17 a)	1,713	3,620
Total current assets		3,031	5,010
TOTAL ASSETS		11,018	12,812

Statement of financial position (continued)
As at 31 December 2009

	Notes	31 December 2009 HRK millions	31 December 2008 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued capital	22	8,189	8,189
Legal reserves	23	409	409
Fair value reserves		(3)	(1)
Retained earnings	24	903	2,458
Total issued capital and reserves		9,498	11,055
Non-current liabilities			
Provisions for legal cases	21	94	84
Provisions for redundancy	6	113	-
Employee benefit obligations	19	168	166
Deferred income	20	102	128
Other long-term liabilities		20	20
Total non-current liabilities		497	398
Current liabilities			
Trade and other payables	18	790	930
Provisions for redundancy	6	7	139
Other accruals	25	104	114
Payables to subsidiaries		53	98
Deferred income	20	69	78
Total current liabilities		1,023	1,359
Total liabilities		1,520	1,757
TOTAL EQUITY AND LIABILITIES		11,018	12,812

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

Signed on behalf of HT d.d. on 8 February 2010.

Ivica Mudrinić

Jürgen P. Czapran

Statement of cash flows
For the year ended 31 December 2009

	Notes	2009 HRK millions	2008 HRK millions
Operating activities			
Net profit		896	2,104
Depreciation charges	5	879	862
Impairment loss of non-current assets	5	3	13
Income tax expense	8	239	298
Interest income		(143)	(229)
Gain on disposal of assets		(6)	(11)
Income from investment in subsidiaries		-	(1,003)
Income from investment in joint venture		(4)	-
Decrease/(increase) in inventories		19	(96)
Increase in receivables and prepayments		(61)	(26)
Decrease in payables and accruals		(228)	(26)
Increase/(decrease) in employee benefit obligations	19	2	(16)
Interest paid		(6)	(7)
(Decrease)/increase in provisions		(9)	7
Value adjustment of inventories		-	27
Other non-cash items		(3)	7
Taxes paid		(234)	(404)
Net cash flows from operating activities		1.344	1,500
Investing activities			
Purchase of non-current assets	9,10	(1,041)	(1,118)
Proceeds from sale of non-current assets		24	39
Proceeds from sale of non-current financial assets		2	4
Purchase of current financial assets		(146)	-
Proceeds from sale of current financial assets		254	1,960
Interest received		160	274
Non-current loans given to subsidiary		(54)	(77)
Dividend received		4	1,003
Net cash flows (used in)/from investing activities		(797)	2,085
Financing activities			
Repayment of long-term borrowings		-	(1)
Dividends paid	24	(2,456)	(2,421)
Net cash flows used in financing activities		(2,456)	(2,422)
Net (decrease)/increase in cash and cash equivalents		(1,909)	1,163
Effect of foreign exchange rate changes on cash and cash equivalents		2	(7)
Cash and cash equivalents at 1 January		3,620	2,464
Cash and cash equivalents at 31 December	17 a)	1,713	3,620

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

Statement of changes in equity
For the year ended 31 December 2009

	Issued capital HRK millions (Note 22)	Legal reserves HRK millions (Note 23)	Fair value reserves HRK millions	Retained earnings HRK millions (Note 24)	Total HRK millions
Balance as at 1 January 2008	8,189	409	2	2,764	11,364
Paid dividends	-	-	-	(2,421)	(2,421)
Profit for the year	-	-	-	2,104	2,104
Other comprehensive income	-	-	(3)	11	8
Balance as at 31 December 2008	8,189	409	(1)	2,458	11,055
Paid dividends	-	-	-	(2,456)	(2,456)
Profit for the year	-	-	-	896	896
Other comprehensive income	-	-	(2)	5	3
Balance as at 31 December 2009	8,189	409	(3)	903	9,498

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

2 Corporate information

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

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

The principal activities of HT d.d. comprise the provision of telecommunication services, the design and construction of communication networks in the Republic of Croatia and the provision of Internet and data services.

The total number of employees of the Company as at 31 December 2009 was 4,894 (31 December 2008: 5,209).

The financial statements of HT-Hrvatske telekomunikacije d.d. for the financial year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Management Board on 8 February 2010. These financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of preparation

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

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

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

2.2. Changes in accounting policy and disclosures

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

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below.

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

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

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

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

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

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

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

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurement is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 14. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 29.

2.2. Changes in accounting policy and disclosures (continued)

IFRS 8 Operating Segments

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

IAS 1 Presentation of Financial Statements

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

IAS 23 Borrowing Costs (Revised)

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Company's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Company has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. However, during the financial year that ended on 31 December 2009 the Company has not capitalised any borrowing costs on qualifying assets as no borrowings were incurred.

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

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

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

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

2.2. Changes in accounting policy and disclosures (continued)

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

This amendment to IFRIC 9 requires the Company to assess whether an embedded derivative must be separated from a host contract when the Company reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the Company first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The Company early adopted this amendment, which did not have any impact on the financial position or performance of the Company, as the Company has not identified any such embedded derivatives.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Company maintains a loyalty points programme, *T-Club*, within its Fixed and Online telephony businesses and has historically recorded a liability at the time of the sale based on the costs expected to be incurred to supply products in the future. IFRIC 13 has no specific provisions on transition. Therefore, the Company has followed IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, applying the changes retrospectively. The prior year financial information has therefore been restated.

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

As of 1 January 2008:

	HRK millions
Net increase in liabilities:	-
Net decrease in the opening balance of retained earnings	-

As of 31 December 2008:

	HRK millions
Decrease in other accruals:	(3)
Increase in deferred income:	3
Decrease in revenues from rendering of services:	(6)
Increase in other operating income:	3
Decrease in merchandise, material and energy expenses:	3

There was no effect on earnings per share related to the restatement in 2008.

For the amended revenue recognition policy refers to Note 2.4. k)

2.2. Changes in accounting policy and disclosures (continued)

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

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

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

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Company's early adoption of this interpretation did not have any impact on its financial position or performance as the Company has not made non-cash distributions to shareholders.

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

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

2.2. Changes in accounting policy and disclosures (continued)

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 *Operating Segment Information:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 1 *Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Company analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.
- IAS 7 *Statement of Cash Flows:* Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have any impact on the presentation in the statement of cash flows of the contingent consideration on the business combinations completed in 2009 upon cash settlement as there were no business combinations in 2009.
- IAS 16 *Property, Plant and Equipment:* Replaces the term “net selling price” with “fair value less costs to sell”. The Company amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 18 *Revenues:* The Board has added guidance (which accompanies the standard) to determine whether a Company is acting as a principal or as an agent. The features to consider are whether the Company:
    - Has primary responsibility for providing the goods or service
    - Has inventory risk
    - Has discretion in establishing prices
    - Bears the credit risk

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

2.2. Changes in accounting policy and disclosures (continued)

- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Company as no government grant or assistance have been received.
- IAS 23 *Borrowing costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Company has amended its accounting policy accordingly which did not result in any change in its financial position.
- IAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

  The amendment clarified the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the operating segment is the same as reporting segment.
- IAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. This amendment has no impact on the Company because costs for such activities have also previously immediately been expensed.

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

2.2. Changes in accounting policy and disclosures (continued)

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

- IFRS 2 *Share-based Payments*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 19 *Employee Benefits*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investments In Associates*
- IAS 31 *Interest In Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 40 *Investment Properties*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

2.2. Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

On 12 November 2009, the IASB issued *IFRS 9 Financial Instruments* as the first step in its project to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting. By the end of 2010 the IAS 39 will be completely replaced by IFRS 9. The Company 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 Company does not expect IFRIC 19 to have an impact on the financial statements as the Company does not negotiate such terms with its creditors.

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

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

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

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

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

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

2.3. Significant accounting judgments, estimates and assumptions

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

Provisions and contingencies

The Company is exposed to a number of legal cases and regulatory proceedings that may result in significant outflow of economic resources. The Company 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 21 and 27.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on 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 Company 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 year are given in Notes 9 and 10.

Revenue recognition – T-Club loyalty program

The Company estimates the fair value of points awarded under the T-Club program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As at 31 December 2009, the estimated liability for unredeemed points was approximately HRK 32 million (31 December 2008: HRK 3 million).

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 associate, subsidiaries 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) 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.

Useful life of intangible assets is as follows:

Patents and concessions	5 – 10 years
Software and other assets	5 years

c) 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.

2.4. Summary of accounting policies (continued)

c) Property, plant and equipment (continued)

The useful life of newly acquired assets is as follows:

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

Land is not depreciated.

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

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

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

d) 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.

2.4. Summary of accounting policies (continued)

e) 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.

f) Receivables

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

g) 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.

h) 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.

i) Taxation

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

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

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

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

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

2.4. Summary of accounting policies (continued)

j) Employee benefit obligations

The Company provides other long-term employee benefits (see Note 19). These benefits include retirement and jubilee (length of service) payments, and are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognised in other comprehensive income immediately in the period in which they occur. Gains or losses on the curtailment or settlement of benefit 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.

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

k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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 Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company 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 Company is acting as an agent. The following specific recognition criteria must also be met before revenue is recognised:

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

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

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

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)

k) 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 Company'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 Company maintains a loyalty point’s programme, T-Club, within its Fixed and Online 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.

l) 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.

m) 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)

n) Investments

All investments, other than loans and receivables originated by the Company, 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 Company 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.

o) Provisions

A provision is recognised when, and only when, the Company 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 Company is demonstrably committed to a termination of employment contracts, that is when the Company 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)

p) 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 is disclosed when an inflow of economic benefits is probable.

q) 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 32. 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.

r) Events after reporting period

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

3 Revenue

a) Revenue by business

	2009 HRK millions	2008 HRK millions
Fixed telephony	2,506	2,794
Wholesale services	1,083	1,198
Internet services	1,026	806
Data services	183	199
Miscellaneous	155	142
	4,953	5,139

b) Revenue by geographical area

	2009 HRK millions	2008 HRK millions
Republic of Croatia	4,593	4,745
Rest of the World	360	394
	4,953	5,139

4 Service expenses

	2009 HRK millions	2008 HRK millions
Domestic interconnection	430	521
International interconnection	308	369
Other services	239	219
	977	1,109

5 Depreciation, amortisation and impairment of non-current assets

	2009 HRK millions	2008 HRK millions
Depreciation	716	697
Amortisation	163	165
	879	862
Impairment loss	3	13
	882	875

Notes 9 and 10 disclose further details on amortization and depreciation expense and impairment loss.

6 Redundancy expenses

	2009 HRK millions	2008 HRK millions
Provision at 1 January – current	139	231
Additions charged to the statement of comprehensive income	35	45
Utilisation	(167)	(137)
Provision at 31 December – current	7	139

	2009 HRK millions	2008 HRK millions
Provision at 1 January – non current	-	-
Additions charged to the statement of comprehensive income	113	-
Provision at 31 December – 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 2009 and 31 December 2010, respectively, due to business reasons.

7 Other expenses

	2009 HRK millions	2008 HRK millions
Maintenance services	285	265
Advertising	105	127
Postal expenses	83	49
Rent (Note 26)	71	123
Non – income taxes & contribution	44	45
Education and consulting	33	39
Licence cost	30	35
Selling commission	30	20
Call centre and customer care support	30	10
Contract workers	24	45
Daily allowances and other costs of business trips	17	18
Insurance	12	10
Provision for charges and risks (Note 21)	10	10
Loss on disposal of fixed assets	4	3
Other operating charges	69	62
	847	861

8 Taxation

a) Tax on profit

	2009 HRK millions	2008 HRK millions
Current tax expense	230	288
Deferred tax expense	9	10
Taxation	239	298

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

	2009 HRK millions	2008 HRK millions
Profit before taxes	1,135	2,402
Income tax at 20% (domestic rate)	227	480
Tax effects of not taxable income:		
Dividends received and incentives	(2)	(202)
Related to provision for bad debts and value adjustment	(7)	(3)
Revenues taxed in previous years	(4)	-
Lower depreciation	(5)	-
Other	(6)	(13)
Tax effects of expenses not deductible in determining taxable profits:		
Tax for previous years	10	11
Provision for bad debt, value adjustment and accruals	7	12
Other	7	
Entertainment expenses and car usage	3	3
Deferred tax expense	9	10
Taxation	239	298
Effective tax rate	21.05%	12.41%

8 Taxation (continued)

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

	31 December 2009	Charge to statement of comprehensive income	31 December 2008
	HRK millions	HRK millions	HRK millions
Deferred tax asset			
Property, plant and equipment write down	16	(5)	21
Deferred revenue from connection fees	15	(4)	19
Total deferred tax assets	31	(9)	40

The deferred tax asset of the Company arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in that year. Of this amount, HRK 315 million became tax deductible in the period from 2002 to 2009, and the remaining HRK 80 million will be tax deductible in future periods.

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

There are no formal procedures in the Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2010 for the 2009 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until the absolute statute of limitation of 6 years expires.

9 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 2008	61	764	16	117	958
Additions	-	63	24	60	147
Transfers	(3)	88	41	(126)	-
Disposals	-	(5)	-	-	(5)
At 31 December 2008	58	910	81	51	1,100
Additions	-	79	12	64	155
Transfers	-	57	4	(61)	-
Transfers from property, plant and equipment	-	38	-	-	38
Disposals	(1)	(9)	-	-	(10)
At 31 December 2009	57	1,075	97	54	1,283
Accumulated amortisation					
At 1 January 2008	48	447	11	-	506
Charge for the year	4	151	10	-	165
Transfers	(3)	3	-	-	-
Disposals	-	(5)	-	-	(5)
At 31 December 2008	49	596	21	-	666
Charge for the year	4	144	15	-	163
Transfers from property, plant and equipment	-	38	-	-	38
Disposals	(1)	(9)	-	-	(10)
At 31 December 2009	52	769	36	-	857
Net book value					
At 31 December 2008	9	314	60	51	434
At 31 December 2009	5	306	61	54	426

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 the billing software in the shops of HRK 9 million, internal reporting software of HRK 9 million, billing software of HRK 8 million, software for business process management and optimization of HRK 7 million and other software investments into the Company’s intangible assets related to network and infrastructure of HRK 21 million.

10 Property, plant and equipment

	Land and and buildings	Telecom plant and machinery	Tools, vehicles IT and office equipment	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Cost					
At 1 January 2008	1,207	7,112	838	440	9,597
Additions	14	433	54	470	971
Transfers	12	167	58	(237)	-
Disposals	(11)	(32)	(53)	(3)	(99)
At 31 December 2008	1,222	7,680	897	670	10,469
Additions	30	569	41	246	886
Transfers	55	393	45	(493)	-
Transfers to intangible assets	-	(38)	-	-	(38)
Disposals	(3)	(8)	(55)	(11)	(77)
At 31 December 2009	1,304	8,596	928	412	11,240
Accumulated depreciation					
At 1 January 2008	513	3,615	539	3	4,670
Charge for the year	44	559	94	-	697
Impairment loss	-	8	-	5	13
Disposals	(9)	(28)	(44)	(3)	(84)
At 31 December 2008	548	4,154	589	5	5,296
Charge for the year	45	575	96	-	716
Transfers to intangible assets	-	(38)	-	-	(38)
Impairment loss	-	-	3	-	3
Disposals	(2)	(6)	(50)	(1)	(59)
At 31 December 2009	591	4,685	638	4	5,918
Net book value					
At 31 December 2008	674	3,526	308	665	5,173
At 31 December 2009	713	3,911	290	408	5,322

Included within assets under construction of the Company are major spare parts of HRK 18 million (31 December 2008: HRK 21 million), net of a provision of HRK 4 million (31 December 2008: HRK 5 million).

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

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

10 Property, plant and equipment (continued)

Impairment loss

In 2009, the Company recognised an impairment loss of property, plant and equipment of HRK 3 million (2008: HRK 13 million) 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 Company 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 telecommunications plant and equipment of HRK 8 million and disposal of old tools, IT and office equipment of HRK 55 million (all values stated as gross book values).

Ownership over ducts

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

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

10 Property, plant and equipment (continued)

Ownership over ducts (continued)

The legalization process is to be speeded up due to a new Law on Electronic Communications which obliges local municipality and other owners of land used for the construction of telecommunication infrastructure to give T-HT the right of way if other solutions were not agreed. The new Law on Electronic Communications entered into force on 1 July 2008. The new Law on Electronic Communications and Ordinance on Certificate and Fees for the Right of Way (entered into force on 31 March 2009) open new possibilities for negotiations with local authorities and County Roads that do not want to conclude right of servitude and right of use contracts, since a new right of way contract is introduced that could settle outstanding legal and ownership issues.

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

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

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

The Company 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 Company 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 Company’s ducts as at 31 December 2009 is HRK 887 million (31 December 2008: HRK 857 million).

11 Investment in subsidiaries

The net book value of investments in subsidiaries comprises:

	31 December 2009 HRK millions	31 December 2008 HRK millions
T Mobile Hrvatska d.o.o.	1,478	1,478
Iskon Internet d.d.	99	99
KDS d.o.o.	3	3
	1,580	1,580

HT - Hrvatske telekomunikacije d.d. has the following subsidiaries in the Republic of Croatia:

Company	Country of Business	Principal Activities	Ownership Interest
T Mobile Hrvatska d.o.o.	Republic of Croatia	Provision of mobile telecommunication services	100%
Iskon Internet d.d.	Republic of Croatia	Provision of Internet and data services	100%
KDS d.o.o.	Republic of Croatia	Provision of cable TV services	100%

On 29 October 2009 a Merger Agreement was signed by the Company and its subsidiary T-Mobile Hrvatska d.o.o., more details are disclosed in Note 34.

12 Investment in associate

The net book value of investments in associate comprises:

	31 December 2009 HRK millions	31 December 2008 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.

13 Investment in joint venture

The net book value of investments in joint venture comprises:

	31 December 2009 HRK millions	31 December 2008 HRK millions
HT d.o.o. Mostar	335	335
	335	335

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

14 Available-for-sale investments

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

Issuer	*Currency*	*Interest rate*	*Maturity*	31 December 2009 HRK millions	31 December 2008 HRK millions
Government of Croatia	HRK	4.75%	8 February 2017	23	20
Other equity securities	HRK			9	10
				32	30

Current available-for-sale investments include the following:

				31 December 2009 HRK millions	31 December 2008 HRK millions
Unit holdings in money market funds:					
ZB plus				-	42
Bonds:					
Government of France	EUR	3.00%	12 January 2010	36	-
Government of the Netherlands	EUR	3.00%	15 January 2010	37	-
Foreign treasury bills:					
Government of Germany	EUR	1.00%	12 May 2010	73	-
				146	42

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

15 Inventories

	31 December 2009 HRK millions	31 December 2008 HRK millions
Merchandise	59	85
Inventories and spare parts	134	127
	193	212

16 Trade and other receivables

	31 December 2009 HRK millions	31 December 2008 HRK millions
Trade receivables	739	674
Other receivables	72	71
	811	745

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 2009	739	499	140	53	26	11	10
31 December 2008	674	396	165	68	20	11	14

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

As at 31 December 2009, trade receivables with a nominal value of HRK 446 million (31 December 2008: HRK 449 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2009 HRK millions	2008 HRK millions
At 1 January	449	506
Charge for the year	94	62
Unused amounts reversed	(97)	(119)
At 31 December	446	449

17 Cash and cash equivalents and time deposits

a) Cash and cash equivalents

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

	31 December 2009 HRK millions	31 December 2008 HRK millions
Cash on hand and balances with banks	455	21
Time deposits with maturity less than 3 months	1,258	3,599
Cash and cash equivalents	1,713	3,620

b) Time deposits

	31 December 2009 HRK millions	31 December 2008 HRK millions
Hrvatska poštanska banka d.d.	1	26
Erste Steiermarkische Bank d.d.	-	135
Raiffeisenbank Austria d.d.	-	50
	1	211

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

	31 December 2009 HRK millions	31 December 2008 HRK millions
HRK	1,213	3,325
EUR	468	481
USD	33	25
	1,714	3,831

18 Trade and other payables

	31 December 2009 HRK millions	31 December 2008 HRK millions
Trade payables	725	856
Payroll and payroll taxes	52	56
VAT and other taxes payable	11	8
Other creditors	2	10
	790	930

19 Employee benefit obligations

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

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

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

	2009 HRK millions	2008 HRK millions
At 1 January	166	182
Service costs recognised in the statement of comprehensive income	11	10
Interest costs recognised in the statement of comprehensive income	11	-
Payments made under scheme	(13)	(13)
Actuarial gains	(7)	(13)
At 31 December	168	166

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

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

20 Deferred income

	31 December 2009 HRK millions	31 December 2008 HRK millions
Connection fee	102	128
Deferred income – non current	102	128
Connection fee	33	35
Customer loyalty programme	32	3
Monthly fee	-	23
Other	4	17
Deferred income – current	69	78
	171	206

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

21 Provisions for legal cases

	2009 HRK millions	2008 HRK millions
At 1 January	84	77
Additions (Note 7)	10	10
Utilisation	-	(3)
At 31 December	94	84

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

22 Issued capital

Authorised, issued, fully paid and registered share capital

	31 December 2009 HRK millions	31 December 2008 HRK millions
81,888,535 ordinary shares of HRK 100 each	8,189	8,189

The number of shares in issue remained unchanged between 1 January 1999 and 31 December 2009.

23 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 Company.

24 Retained earnings

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

25 Other accruals

	31 December 2009 HRK millions	31 December 2008 HRK millions
Variable salary to employees	74	86
Unused vacation	28	27
Other	2	1
	104	114

26 Commitments

a) Operating lease commitments

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

Operating lease charges:

	2009 HRK millions	2008 HRK millions
Current year expense (Note 7)	71	123

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

	31 December 2009 HRK millions	31 December 2008 HRK millions
Within one year	52	52
Between 2 and 5 years	179	187
Greater than 5 years	125	167
	356	406

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

	31 December 2009 HRK millions	31 December 2008 HRK millions
Property, plant and equipment	6	25
Intangible assets	1	-
	7	25

27 Contingencies

a) Litigation

At the time of preparation of these financial statements, there are a number of claims outstanding against the Company. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Company, except for certain claims for which provision was established (see Note 21) and except for claims where the outcome cannot be reliably determined.

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

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

27 Contingencies (continued)

a) Litigation (continued)

Cable operator B.net Hrvatska d.o.o. submitted a claim against the Company to the Competition Agency in April and July 2008, requesting that the Competition Agency declares abuse of dominant position by the Company on the markets of leased lines and transmission of television programs. The main arguments of B.net are related to abuse of the Company's dominant position on the relevant markets through following forbidden practices: (i) predatory pricing, (ii) margin squeeze and (iii) leverage of market power.

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

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

B.net had previously submitted a similar complaint to the Croatian Post and Electronic Communications Agency, where the Company successfully defended its position, which resulted in B.net's request being rejected. However, the direction of the investigation and in particular the latest request of the Competition Agency to provide detailed information on the cost of MAXtv service indicate there is an increased risk of the Competition Agency initiating formal proceedings. Therefore, the Company has engaged external legal support for this matter.

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

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

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

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

27 Contingencies (continued)

a) Litigation (continued)

In case that the Competition Agency finds that the Company did abuse its dominant position on the relevant markets, the Competition Agency would submit a request to initiate the proceedings before the Misdemeanour Court, in order to determine whether an offence was committed and subsequently to decide on the amount of pecuniary fines (for the company and responsible persons). Also, all profits the Company gained by committing the offence would be seized.

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

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

b) Billing interval and Consumer Act claims

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

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

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

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

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

27 Contingencies (continued)

b) Billing interval and Consumer Act claims (continued)

The Company has been informed that approximately 42,000 consumers signed a collective petition in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitioners would be invalid. The maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 100 million, including interest. The exposure could be greater than this if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.

The Company vigorously denies the validity of these claims. It believes that it should win on appeal. Management and T-HT's legal 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 as adjudicated by the non-final Consumer Fraud Litigation judgment. Both T-HT and State Attorney objected. The Company believes that individual claims cannot even be discussed while the substance stands under appeal within the Consumer Fraud Litigation.

The Company's lawyers remain of a firm belief that the judgment of the Zagreb Municipality Court from 12 April 2007 will not stand at the appeal-court.

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

With respect to the ducts issue mentioned under Property, plant and equipment (Note 10), on 16 September 2008 the Company received a lawsuit filed by the Zagreb Digital City Ltd. branch of the Zagreb Holding Ltd. (hereinafter: ZHZDG) against the Company. ZHZDG is claiming the ownership of the City of Zagreb over DTI on the area of the City of Zagreb and demanding a payment of HRK 120 million plus interest.

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

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

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

28 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 Company 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 2009 and 2008. Further, DTAG provided technical assistance to the Company of HRK 17 million (2008: HRK 26 million).

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

	Revenue		Expenses	
	2009	2008	2009	2008
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	23	24	8	13
HT Mostar, Bosnia and Herzegovina	27	29	58	57
Others	10	15	10	36
Total international settlements	60	68	76	106
Deutsche Telekom AG, Germany	-	-	20	30
T-Systems Enterprise Services, Germany	-	-	3	3
Others	-	-	1	-
Total intercompany services	-	-	24	33
T-Systems Enterprise Services, Germany	-	-	3	-
Others	-	-	1	1
Total capital expenditure	-	-	4	1
Total related parties	60	68	104	140

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

	Receivables		Payables	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	4	5	2	1
HT Mostar, Bosnia and Herzegovina	5	5	9	11
Others	1	4	1	6
Total international settlements	10	14	12	18
Deutsche Telekom AG, Germany	-	-	6	9
T-Systems Enterprise Services, Germany	-	-	1	3
Others	-	-	1	1
Total intercompany services	-	-	8	13
Total related parties	10	14	20	31

28 Balances and transactions with related parties (continued)

HT d.d. is a joint stock company which operates in Croatia in the telecommunications market. As a result of HT d.d.'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.

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

The Company had the following balances on transactions with subsidiaries:

	Sales	Purchases	Receivables	Payables
Subsidiaries:	HRK millions	HRK millions	HRK millions	HRK millions
2009 / 31 December 2009	479	379	103	53
2008 / 31 December 2008	490	449	88	98

Compensation of the Supervisory Board

The chairman of the Supervisory Board receives remuneration in the amount of 1.5 of the average monthly 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 monthly 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 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 2009, the Company paid a total amount of HRK 0.6 million (2008: HRK 0.6 million) to the members of its Supervisory Board. No loans were granted to the members of the Supervisory Board.

Compensation to key management personnel

In 2009 the total compensation paid to key management personnel of the Company amounted to HRK 29 million (2008: HRK 30 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, the Executive Board of T-Com and the operating directors of the Company, who are employed by the Company.

29 Financial risk management objectives and policies

The Company is exposed to international service-based markets. As a result, it can be affected by changes in foreign exchange rates. The Company 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 Company does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk

The Company has no significant concentration of credit risk with any single counter party or group of counterparties with similar characteristics. Company 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 Company does not guarantee obligations of other parties.

The Company considers that its maximum exposure is reflected by the amount of debtors (see Note 16) net of provisions for impairment recognised at the statement of financial position date.

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

b) Liquidity risk

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

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

Trade and other payables all amounts in HRK millions	Due in 0-30 days	Due in 31-60 days	Due in 61-90 days	Due in 91-120 days	Due in > 120 days	Total
Year ended 31 December 2009	760	14	6	4	6	790
Year ended 31 December 2008	880	14	12	12	12	930

Other long-term liabilities all amounts in HRK millions	on demand	less than 3 months	3 to 12 months	1 to 3 years	3 to 5 years	> 5 years	Total
Year ended 31 December 2009	-	-	-	6	2	12	20
Year ended 31 December 2008	-	-	-	7	3	10	20

29 Financial risk management objectives and policies (continued)

c) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's available-for-sale investments, cash, 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 Company's profit before tax (through the impact on floating rate investments).

	Increase/decrease in basis points	Effect on equity HRK millions	Effect on profit before tax HRK millions
Year ended 31 December 2009			
Croatian Kuna	+100	3	13
	-100	(3)	(13)
Euro	+100	1	4
	-100	(1)	(4)
Year ended 31 December 2008			
Croatian Kuna	+100	-	31
	-100	-	(31)
Euro	+100	-	5
	-100	-	(5)

d) Foreign currency risk

The Company'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 the Croatian National Bank at each statement of financial position date. The resulting differences are charged or credited to the statement of comprehensive income but do not affect short-term cash flows.

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

	Increase/decrease in Euro rate	Effect on profit before tax HRK millions
Year ended 31 December 2009	+3%	16
	-3%	(16)
Year ended 31 December 2008	+3%	14
	-3%	(14)

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008 (see Note 24).

30 Financial instruments

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

	Carrying amount		Fair value	
	31 December 2009 HRK millions	31 December 2008 HRK millions	31 December 2009 HRK millions	31 December 2008 HRK millions
Financial assets				
Cash and cash equivalents	1,713	3,620	1,713	3,620
Time deposits	1	211	1	211
Available-for-sale investments, non-current	32	30	32	30
Available-for-sale investments, current	146	42	146	42
Financial liabilities				
Interest-bearing loans	16	16	16	16

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.

31 Authorization for Services and Applicable Fees

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

The new Law on Electronic Communications terminated the Concession Agreement valid until then. Additionally, it provided that a person/Company authorized under previously valid regulations can continue to provide services in accordance with the provisions of the new Law. Following the Company's prior notification on the provision of electronic communication services as of 6 February 2009 and HAKOM's Certificate on the submission of the prior notification as of 9 February 2009, the Company is entitled to provide the following electronic communication services:

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

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

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

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

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

32 Share-based payment transactions

Various mid-term incentive plans (MTIPs) exist at T-HT's parent company Deutsche Telekom AG (DTAG) and on T-HT 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 Company, thus aligning the interests of management and shareholders. MTIPs have been issued by DTAG on an annual basis since 2004. Certain members of the Board of HT d.d. participate as beneficiaries of DTAG's MTIP.

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

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

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

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

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

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

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

32 Share-based payment transactions (continued)

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

If only one target of T-HT's MTIPs is reached, the participants receive 50 percent of the targeted incentive. The incentives themselves consist of 15 percent, 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2008 for MTIP 2008 and 20 percent or 30 percent of the participants' individual annual salary as contracted on 1 January 2009 for MTIP 2009, depending on the management level of the participant and according to the Supervisory Board decision. Participants' individual annual salary is defined as the annual amount of total fixed salary and the amount of variable salary in case of a 100 percent target achievement.

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

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

33 Auditor's fees

The auditor of the Company's financial statements, Ernst & Young d.o.o., has rendered services of HRK 4.1 million in 2009 (2008: HRK 3 million). Services rendered in 2009 and 2008 relate to the audits and reviews of the financial statements.

34 Events after reporting period

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

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