

**T-HT GROUP**  
**ANNUAL REPORT**  
ON THE STATUS AND BUSINESS OPERATIONS  
OF THE COMPANY AND T-HT GROUP  
FOR THE BUSINESS YEAR 2009

February 2010

## FINANCIAL HIGHLIGHTS - IFRS HT accounting policies

## T-HT GROUP

in HRK million	Jan-Dec 2009	Jan-Dec 2008	% of change A09/A08
Revenue	8,517	8,791	-3.1%
EBITDA before exceptional items	3,859	4,009	-3.8%
EBITDA	3,695	3,964	-6.8%
EBIT (Operating profit)	2,294	2,602	-11.9%
Net profit after minority interest	2,023	2,310	-12.4%
EBITDA margin before exceptional items	45.3%	45.6%	-0.3 p.p.
EBIT margin	26.9%	29.6%	-2.7 p.p.
Net profit margin	23.8%	26.3%	-2.5 p.p.
CAPEX	1,553	1,621	-4.2%
CAPEX / Revenue ratio	18.2%	18.4%	-0.2 p.p.
	At 31 Dec 2009	At 31 Dec 2008	% of change A09/A08
ROE	16.6%	18.5%	-1.9 p.p.
Financial leverage ratio	0.20	0.22	-7.9%
Quick ratio	3.17	3.14	1.0%
Number of employees	6,044	6,419	-5.8%

## Balance Sheet

in HRK million	At 31 Dec 2009	At 31 Dec 2008	% of change A09/A08
Total non current assets	8,175	7,977	2.5%
Total current assets	6,297	7,227	-12.9%
<b>TOTAL ASSETS</b>	<b>14,472</b>	<b>15,205</b>	<b>-4.8%</b>
Total issued capital and reserves	12,012	12,440	-3.4%
Total non current liabilities	556	565	-1.5%
Total current liabilities	1,904	2,200	-13.5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,472</b>	<b>15,205</b>	<b>-4.8%</b>

## OPERATIONAL HIGHLIGHTS

## T-COM SEGMENT

Key operational data	Dec 2009	Dec 2008	% of change A09/08
<b>Fixed telephony</b>			
Total POTS and FGSM mainlines	1,390,568	1,444,356	-3.7%
Total ISDN mainlines	93,020	105,767	-12.1%
<b>Total (POTS+FGSM+ISDN)</b>	<b>1,483,588</b>	<b>1,550,123</b>	<b>-4.3%</b>
Payphones	8,034	8,948	-10.2%
<b>Total mainlines (POTS+FGSM+ISDN+Payphones)</b>	<b>1,491,622</b>	<b>1,559,071</b>	<b>-4.3%</b>
<b>Total Traffic (thousands of minutes) Jan-Dec</b>	<b>3,464,391</b>	<b>3,797,966</b>	<b>-8.8%</b>
To national fixed network	2,926,481	3,177,675	-7.9%
To national mobile network	310,937	365,003	-14.8%
To VAS	65,346	66,119	-1.2%
To international networks	119,445	133,210	-10.3%
Remaining traffic <sup>(1)</sup>	42,182	55,959	-24.6%
Average monthly voice revenue per voice access (ARPA) (HRK)	138	150	-7.9%
<b>Internet services</b>			
<b>Internet access customers</b>			
Number of Internet subscribers	596,978	551,869	8.2%
Dial-up users	766,429	761,324	0.7%
Active dial - up users	41,983	79,215	-47.0%
ADSL mainlines	554,995	472,654	17.4%
IPTV customers	235,980	135,573	74.1%
Fixed-line customers	1,152	1,026	12.3%
VPN connection points	3,528	2,395	47.3%
<b>Data services</b>			
<b>Total Data lines and connection points</b>	<b>6,153</b>	<b>6,389</b>	<b>-3.7%</b>
<b>Wholesale services</b>			
<b>Customers</b>			
GPS	227,879	235,869	-3.4%
NP (users/number)	348,210	272,687	27.7%
ULL	123,054	87,072	41.3%

<sup>(1)</sup> Includes payphone traffic, operator assisted services, additional services (such as CLIP, CLIR, CFR, conference call, inquiries services and fixed SMS) and calls to satellite.

**T-MOBILE SEGMENT**

Key operational data	Dec 2009	Dec 2008	% of change A09/08
<b>Subscribers</b>			
No. of pre-paid subscribers	1,938,867	1,879,377	3.2%
No. of post-paid subscribers	919,991	810,615	13.5%
Total T-Mobile subscribers	2,858,858	2,689,992	6.3%
% of post-paid subscribers	32.2	30.1	2.0 p.p.
<b>Minutes of use (MOU)</b>			
MOU per average subscriber	112.0	122.3	-8.5%
<b>Average revenue per user (ARPU) (HRK)</b>			
Blended ARPU (monthly average for the period in HRK) <sup>(4)(5)</sup>	98.0	117.0	-16.3%
Blended non-voice ARPU (monthly average for the period in HRK)	23.1	24.5	-5.5%
<b>SAC per gross add</b>	198.7	269.9	-26.4%
<b>Churn rate (%)</b>			
Churn rate total	1.9	1.4	0.5 p.p.
Churn rate post-paid	0.8	0.7	0.1 p.p.
Churn rate pre-paid	2.3	1.7	0.6 p.p.
<b>Penetration</b> <sup>(2)</sup>	137.7	132.4	5.3 p.p.
<b>Market share of subscribers (%)</b> <sup>(2)</sup>	46.7	45.8	1.0 p.p.
<b>Market share by revenue (%)</b> <sup>(1)(3)</sup>	48.7	50.1	-1.3 p.p.

<sup>(1)</sup> Market share by net revenue

<sup>(2)</sup> Source: published VIPnet's and Tele2's quarterly report for 4Q 2008. Number of subscribers for VIPnet and Tele2 for 4Q 2009 are internally estimated.

<sup>(3)</sup> Source: Telekom Austria Quarterly report for 4Q 2008. Tele2 Quarterly report for 4Q 2008. VIPnet's and TELE 2 total revenues for 2009 are internally estimated. Market shares are based on unconsolidated revenue for T-Mobile (i.e. not net of T-Com revenue).

<sup>(4)</sup> Blended ARPU is effected by restating of previous year for IFRIC 13.

<sup>(5)</sup> 6% contribution fee on mobile revenues is included in blended ARPU for 2009.

**Presentation of information in the Annual Report**

Unless the context otherwise requires, references in this publication to "T-HT Group" or "the Group" or "T-HT" are to the Company HT-Hrvatske telekomunikacije d.d., together with its subsidiaries.

References to "HT" or the "Company" are to the Company HT-Hrvatske telekomunikacije d.d. Following the merger of T-Mobile d.o.o. with HT-Hrvatske telekomunikacije d.d. (HT d.d.), effective 1 January 2010, the Group is now organized into two business units: Business and Residential.

Therefore, references to "T-Mobile" are to business operations performed in previous periods by the Company's wholly-owned subsidiary, T-Mobile Croatia d.o.o.,

References to "T-Com" are to business operations including the fixed network, wholesale, broadband, data, on-line services and ICT solutions that were in previous years performed by the Company's business Unit T-Com.

References to "Iskon" are to the Company's wholly-owned subsidiary, Iskon Internet d.d.

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

### **Merger of T-Mobile Croatia LLC with HT – Hrvatske telekomunikacije d.d.**

Croatia's telecommunications market is constantly changing. Against a backdrop of economic uncertainty, competition is increasing from new and existing operators, new technologies bring both opportunities and challenges and customer expectations become more demanding at the same time as their spending power comes under pressure.

The result is a continuing decline in the use of fixed telephony, the mobile market is becoming saturated, more investment is required to support new technologies and customers are more likely to churn.

It is challenges like these that have driven the transformation of the Group and consequently the merger of T-Mobile Croatia LLC with HT d.d. and the related transition from the old, product-oriented organization to a new customer-focused structure based upon Residential and Business units. At the same time, we have reorganized our technical and operational functions to provide maximum support for the new T-HT. With these transformation changes, the premises for further continuation in pursuing our goal of becoming even more efficient and customer focused are created.

Transformation of the business enables us to improve the way we do business, providing Business and Residential customers with dedicated sales organizations capable of offering the full range of products and services we offer. The result will be improved customer care and an increased ability to provide tailor-made and comprehensive solutions, especially for business customers.

Furthermore, the reorganization of internal business operations enables significant synergies and cost savings through the consolidation of marketing, contract negotiation with suppliers and many other activities important to the business.

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. (Attachment 1 – Merger Agreement; Attachment 2 – Commercial Court Resolution)

By the merger, 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. In the merger procedure, the assets, rights and obligations, as well as the capital of the transferor company, were entirely transferred to HT d.d. (Attachment 3 – starting balance sheet; Attachment 4 – audited Annual financial statements of T-Mobile Croatia LLC for 2009). As the universal legal successor of the transferor company HT d.d. will be liable for all obligations of its predecessor, T-Mobile Croatia LLC (including, but without limitation to obligations towards suppliers, tax obligations, obligations towards employees and other creditors).

The Management Board is of the opinion that the merger was carried out on the basis of and in accordance with the Law, and that it serves the benefit of the Company and its shareholders.

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## 1. INTRODUCTION

### 1.1. Corporate Profile

#### At a Glance

The T-HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services as well as wholesale, Internet and data services. As of 1 January 2010, the Group conducts its business through its Residential and Business units, having previously conducted business through T-Com (which was not a separate legal entity), T-Mobile and other subsidiaries.

The basic activities of HT-Hrvatske telekomunikacije d.d. and subsidiary companies comprise the provision of electronic communications services and the design and construction of electronic communications networks within the Republic of Croatia. In addition to the provision of fixed telephony lines services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet services, data transmission services (lease of lines, ATM, X.25 and Frame Relay), operating with GSM and UMTS mobile telephone networks.

#### History and Incorporation

HT-Hrvatske telekomunikacije d.d. (HT d.d. or the Company) is a joint stock company majority owned by Deutsche Telekom AG (DTAG). It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT-Hrvatska pošta i telekomunikacije (HPT s.p.o.) was separated and transferred into two new joint stock companies, HT-Hrvatske telekomunikacije d.d. (HT d.d.) and HP-Hrvatska pošta d.d. (HP d.d.). The Company commenced its operations on 1 January 1999.

Pursuant to the terms of the Law on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold 35% share in HT d.d. to DTAG, and on 25 October 2001 DTAG purchased further 16% share in HT d.d. and thus became the majority shareholder with 51% share in ownership. As of 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the Law on Privatization of HT d.d. (Official Gazette No. 65/99 and 8/2001).

During 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunication services. HTmobile commenced its commercial activities on 1 January 2003 and in October 2004, the company name was officially changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded as T-HT, thus becoming a part of the global „T“ family of Deutsche Telekom. The change of identity at corporate level was followed by the creation of trade marks for the two separate business units of the Group: the fixed network operations business unit, T-Com, which also provided wholesale, Internet and data services, and the mobile operations business unit, T-Mobile.

As of 30 May 2006, the Group acquired 100% of shares of Iskon Internet d.d., one of the leading alternative providers in Croatia. Pursuant to the provisions of the Law on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 2007, the Republic of Croatia sold 32.5% of T-HT ordinary shares by Initial Public Offering (IPO). From the 32.5% of shares, 25% went to Croatian retail, while 7.5% were distributed among Croatian and international institutional investors.

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

In October 2009, an agreement was signed by which T-Mobile Croatia was merged into HT-Hrvatske telekomunikacije d.d. The merger entered into the court register on 31 December 2009 and with the expiry of 31 December 2009 all the effects of the merger came into force whereby T-Mobile ceased to exist. The merger came into effect on 1 January 2010, after which time the Group was organised into Residential and Business units.

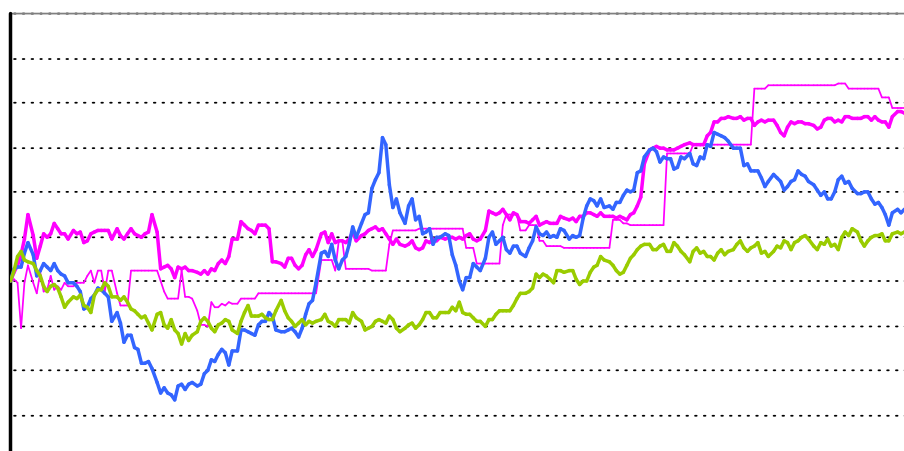
## 1.2. Investor Information

### Economic environment and share price performance

After the turbulence that hit the world's investors in the second half of 2008, stock markets recovered well in 2009, driven mainly by positive sentiment that the largest economies were emerging from recession. For economies such as Croatia's, however, confidence in the stock market took longer to return. Following a poor year in 2008, volumes on the Zagreb Stock Exchange halved again in 2009. The benchmark CROBEX index reached a low in March, but recovered strongly in the following months to end 16.4% up on the year, even after a fall in the final quarter. Although commendable in such a poor economy, its 16.4% gain was scant compensation for the 67.1% fall it suffered in 2008. The Croatian economy provided a difficult environment for market recovery. Poor corporate results, liquidations, rising unemployment, increased taxes, new levies, crises in government and scandals in business all had an impact on confidence. But with a good tourist season, continuing financial stability, strong and well-received initiatives by the new Prime Minister, NATO accession and the continuation of EU accession talks, confidence is again driving the market upwards.

Against this backdrop, T-HT shares performed well, beating the CROBEX average by more than 20 percentage points for the second year in a row. This good performance was achieved despite new taxes on mobile services levied from August 2009, and we believe it reflects the importance of telecommunication services to the economy and the attractiveness of T-HT shares as an investment. In addition, T-HT shares strongly outperformed the Dow Jones Euro Stoxx Telecommunications Index (a leading indicator of the telecommunications industry that measures the performance of some Europe's largest telecom companies), more than compensating for the underperformance against the index in 2008.

*T-HT Share and GDR as compared to CROBEX and Dow Jones Europe Stoxx Telecommunications Index  
1 January 2009 - 31 December 2009*



— T-HT Share — THT GDR — CROBEX — DJ Euro Stoxx Telecommunications Index



T-HT Shares ended the year at HRK 274.50, representing an increase of 37.8% on the HRK 199.22 at which they closed in 2008. The year's highest closing price was HRK 274.95, the lowest being HRK 201.03 (source: Zagreb Stock Exchange).

T-HT was once again the most traded share on the Zagreb Stock Exchange, with HRK 1.8 billion of turnover, accounting for 23.7% of the ZSE's total trade by value of shares in 2009.

As at 31 December 2009, T-HT was the largest company on ZSE, with a market capitalization HRK 22.5 billion (EUR: 3.1 billion) representing 16.6% of the total market capitalization by value (source: Zagreb Stock Exchange).

At the last revision of the CROBEX index, T-HT's weighting was set at 15% of the index.

Besides T-HT shares being listed on the Official Market of the Zagreb Stock Exchange, Global Depository Receipts (GDRs) – each representing one T-HT Share – are tradable on London Stock Exchange.

### **Dividend policy**

The Dividend policy of the Company was set out in the prospectus that accompanied its Initial Public Offering in October 2007:

The future dividend policy should be that any dividends declared and paid in respect of any year following the year in which Offering takes place, shall range from 50% to 100% of the Company's distributable profits earned in the immediately preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and general economic climate).

### Dividend for the 2008 financial year

In April 2009, the General Assembly of the Company decided on a dividend payment to shareholders in the amount of HRK 2,456 billion (HRK 29.99 per share), representing a dividend payout ratio of 106%.

Pursuant to the above, an advance dividend payment of HRK 12.84 per share was made in March 2009, with the residual amount of HRK 17.15 per share being paid to shareholders in May 2009.

At the end of 2009, this represented a dividend yield of 10.9% on T-HT's closing share price of HRK 274.50, on the final trading day of the year. Using the average closing share price over 2009, HRK 233.78, the dividend yield was 12.8%.

### Dividend proposal for the 2009 financial year

The Management Board of HT-Hrvatske telekomunikacije d.d. proposes the dividend distribution to shareholders in amount of HRK 2,788,304,616.75 and the amount of 759,913,016.51 to allocate to retained earnings. Dividend of HRK 34.05 per share would be paid on May 17th 2010.

Total amount of HRK 3,548,217,633.26 represents a sum of net income for 2009 in amount of HRK 896,079,447.08, retained earnings from earlier periods in amount of HRK 30,044,477.94 and retained and unallocated income in the total amount of HRK 2,622,093,708.24 formed according to the Merger Agreement signed on 29 October 2009 between T-Mobile Hrvatska d.o.o. and HT – Hrvatske telekomunikacije d.d., and entered into court register on 31 December 2009.

**Shareholder Structure as at 31 December 2009.**

Deutsche Telekom	51.0%
Private and institutional investors	38.5%
War Veterans' Fund	7.0%
Republic of Croatia	3.5%

Total number of shares issued: 81,888,535

Deutsche Telekom is the majority shareholder with a 51% holding. The Croatian War Veterans' Fund owns 7% with the Government of the Republic of Croatia holding 3.5%. Institutional and private investors own the remaining 38.5%.

As at 31 December 2009, more than 250,000 Croatian citizens held T-HT Shares, representing 24.2% of the total share capital of the Company.

**Financial Calendar**

	Date
Release of full year 2009 results	February 16, 2010
The General Assembly of the Company	April 21, 2010
Release of first quarter 2010 results	April 30, 2010
Release of first half 2010 results	July 30, 2010
Release of first nine months 2010 results	October 29, 2010

The above-mentioned dates are subject to change

**General information on Shares and GDRs**

Shares:	ISIN: HRHT00RA0005
Regulation S GDRs:	ISIN: US4432962078
Rule 144A GDRs:	ISIN: US4432961088
ZSE Share trading symbol:	HT-R-A
LSE GDR trading symbol:	THTC
Portal Rule 144A GDR listing symbol:	P443296108
Reuters:	THTC.L, HT.ZA
Bloomberg:	THTC LI, HTRA CZ
Number of Shares:	81,888,535
Type:	Ordinary share
Nominal value:	HRK 100

Each GDR represents one Share on deposit with the Custodian.

The depository for the GDR is:

JPMorgan Chase Bank, N.A.,  
 4 New York Plaza  
 13<sup>th</sup> Floor  
 New York

New York 10004  
United States of America

The Custodian is:

Privredna Banka Zagreb  
Račkoga 6  
10000 Zagreb  
Croatia

### Investor Relations

Investor Relations  
HT-Hrvatske telekomunikacije d.d.  
Savska cesta 32  
10000 Zagreb  
Tel.:+385 1 49 12000, +385 1 49 11114, +385 1 49 11884  
Fax:+385 1 49 12012, +385 1 49 11115  
E-mail: ir@t.ht.hr

## 1.3. Management Board

### IVICA MUDRINIĆ

#### President of the Management Board

Ivica Mudrinić was born in 1955. He graduated in electrical engineering from the University of Toronto in 1978. His first job was in the Product Development Department of Motorola Communications, and in 1985 he founded his own company, MX Engineering Inc. In 1990, he returned to Croatia and soon became adviser for communications to the President of the Republic. At the end of the following year, he became Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 was appointed Minister. From 1994 Ivica Mudrinić also served as President of the Telecommunications Council. He held the post of President of the Management Board of Hrvatska radiotelevizija (Croatian Radio and Television) from 1996 until 15 October 1998, when he was appointed General Manager of Hrvatska pošta i telekomunikacije (Croatian Post and Telecommunications). Since the separation of Croatian Post and Telecommunications on 1 January 1999, he has served as President of the Management Board of HT-Hrvatske telekomunikacije.

### JÜRGEN P. CZAPRAN

#### Member of the Management Board

#### Chief Financial Officer

Jürgen P. Zapran was born in 1952. He started his career as a graduate economist in 1979 with Philips GmbH, where he served as director for more than 20 years, primarily in the area of consumer electronics and customer communications. In 2000, he was appointed Executive Vice President of Financial Controlling in T-Mobile International, and in December 2004 he took the position of Member of the Management Board and Chief Financial Officer of T-Mobile Croatia. On 12 February 2007, he was appointed Member of T-HT Management Board and Chief Financial Officer.

### IRENA JOLIĆ ŠIMOVIĆ

#### Member of the Management Board

#### Chief Operating Officer, Business

Irena Jolić Šimović was born in 1969. She graduated from the Faculty of Economics in Zagreb and received an MBA from IEDC, Bled, Slovenia. Prior to joining HT-Hrvatske telekomunikacije, she worked at Croatian Radio and Television (HRT)

and the Ministry of the Sea, Transport and Communications and Ministry of Immigrations. She has been working in senior management positions at HT-Hrvatske telekomunikacije since 1998.

She was Executive Director for Corporate Strategy and Business Development until August 2006. She was appointed Member of T-HT Management Board and Chief Human Resources Officer in August 2006 where her activities were focused on changing the direction of the HR function from operational delivery towards business support. She has been Chief Operating Officer T-Com since October 2008 until December 2009. Since 1 of January 2010 she was appointed the Management Board member and Chief Operating Officer Business (COO Business).

### **BRANKA SKARAMUČA**

#### **Member of the Management Board**

#### **Chief Human Resources Officer**

Branka Skaramuča was born in 1958 and in 1982 obtained a master's degree in Psychology at the Faculty of Philosophy, University of Zagreb. She started her career in 1985 in Pliva where she worked in Personnel from 1985 until 1989. Between September 1989 and March 1993 she was Marketing Manager after which she returned to human resources in the position of HR Director for Croatia and then Global HR Director until February 2002. She was appointed the Management Board member and Chief Human Resources Officer of HT in 2002.

Since March 1, 2004 has been a Management Board member and Chief Human Resources Officer of T-Mobile Croatia.

In September 2008 the Supervisory Board of T-Hrvatski Telekom appointed Branka Skaramuča a Member of the Management Board and Chief Human Resources Officer of T-HT.

### **BOŽIDAR POLDRUGAČ**

#### **Member of the Management Board**

#### **Chief Technical and Chief Information Officer**

Božidar Poldrugáč was born in 1967. He graduated from the Faculty of Electrical Engineering and Computing, Zagreb University in 1992 and earned a master's degree from the same faculty in 2000, focusing on mobile communications and network migrations between second and third generation mobile telephony. He began his career at Croatian Post & Telecommunications in 1993. Since 1994, he has participated in all the development activities related to implementation of the first GSM network in Croatia. After the separation of Croatian Post & Telecommunications, he continued his career in Hrvatski Telekom, where he served as Member of the Management Board and Director for Mobile Communications from October 1999 to October 2001. He was Chief Technical Officer for Mobile Communications at Hrvatski Telekom from October 2001 to 1 January 2003, when the subsidiary company was founded - HT Mobile Communications LLC (T-Mobile Croatia). On 13 March 2007, he was appointed Member of the Management Board and Chief Technical and Chief Information Officer Group.

### **JOHAN BUSÉ**

#### **Member of the Management Board**

#### **Chief Operating Officer, Residential**

Johan Busé is appointed MB member and Chief Operating Officer Residential, with the responsibility for the Residential Unit, including Sales, Marketing and Customer Service. Johan Busé worked in T-Mobile Croatia since 2004 as director of marketing for residential customers and from 2006 to 2008 he held the position of MB member and CMO of T-Mobile Croatia. Mr. Busé is currently Chief Marketing Officer of AXIS, the 3G operator in Indonesia, and he will take up his post in HT on 1 April 2010.

### **RAINER RATHGEBER**

Member of the Management Board and Chief Operating Officer T-Mobile, President of the Management Board and CEO of T-Mobile Croatia until 30 September 2009.

**Compensation to the Management Board members in 2009:**

In 2009, Ivica Mudrinić, President of the Management Board, was paid a fixed salary contracted in annual gross amount of HRK 2,013,974 in average net monthly instalments of HRK 83,203. Variable part, in accordance with 2008 goals achievement, amounted to HRK 784,220 net. Payment according to MTIP 2006 amounted to HRK 182,644 net. Benefit in kind amounted to HRK 218,270 for company car usage and tax free Christmas bonus.

Jürgen P. Czapran, member of the Management Board, was in 2009 paid a fixed and variable salary contracted in annual gross amount of HRK 3,869,796. The amount of benefit in kind was HRK 291,570 for rental, insurance and other benefits.

Rainer Rathgeber, member of the Management Board, was in 2009 paid a fixed and variable salary contracted in annual gross amount of HRK 4,382,416. The amount of benefit in kind was HRK 354,363 for rental, insurance and other benefits.

Božidar Poldrugač, member of the Management Board, was in 2009 paid a fixed salary contracted in annual gross amount of HRK 1,286,480 in average net monthly instalments of HRK 54,906. Variable part, in accordance with 2008 goals achievement, amounted to HRK 262,533 net. Payment according to MTIP 2006 amounted to HRK 74,400 net. The benefit in kind amounted HRK 182,119 for company car usage, tax free children gift and tax free Christmas bonus.

Irena Jolić Šimović, member of the Management Board, was on the maternity leave since April 1st until October 27th 2009 and in this period her salary was paid at the expense of the Croatian Health Insurance Fund. Ms Jolić Šimović was paid in 2009 a fixed salary contracted in gross amount of HRK 619,037 in period January to April 2009 and for November 2009, in average net monthly instalments of HRK 59,861. Variable part, in accordance with 2008 goals achievement, amounted to HRK 238,554 net. Payment according to MTIP 2006 amounted to HRK 46,537 net. The benefit in kind amounted to HRK 120,285 for company car usage, tax free children gift and tax free Christmas bonus.

Branka Skaramuča, member of the Management Board, was in 2009 paid a fixed salary contracted in annual gross amount of HRK 1,354,242 in average net monthly instalments of HRK 54,934. Variable part, in accordance with 2008 goals achievement, amounted to HRK 68,929 net (from October 1st to December 31st 2008 – since she is MB member of T-HT). Payment according to MTIP 2006 amounted to HRK 101,118 net. The benefit in kind amounted to HRK 158,942 for company car usage and tax free Christmas bonus.

**1.4. Supervisory Board**

Guido Kerkoff

Member from 21 April 2009

President of the Supervisory Board from 4 May 2009

Michael Günther

President of the Supervisory Board until 21 April 2009

Dr. sc. Ivica Mišetić

Deputy President

Fridbert Gerlach

Member

Dr. Ralph Rentschler

Member

Josip Pupić  
Member

Siegfried Pleiner  
Member

Kathryn Walt Hall  
Member

Dr. Slavko Leban  
Member

Dr. Steffen Roehn  
Member from 21 April 2009

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

**Compensation to the Supervisory Board members in 2009 is as follows:**

	Period in which compensation is paid		Gross HRK
	From	To	
Kathryn Hall	1 January 2009	31 December 2009	159,309.37
Slavko Leban	1 January 2009	31 December 2009	121,500.99
Ivica Mišetić	1 January 2009	31 December 2009	186,136.27
Josip Pupić	1 January 2009	31 December 2009	148,909.05

Since the remuneration of the Supervisory Board members is based on net average salary paid to the employees of the Company in previous month, only gross amounts are shown therein.

## 1.5. Corporate Governance Code Compliance Statement

*HT – Hrvatske telekomunikacije d.d. (hereinafter referred to as “the Company”) has, in accordance with Article 250b, paragraph 4 of the Companies Act (“Official Gazette” Nos. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08 and 137/09), prepared the Annual Report of the Management Board on the Status and Business Operations of the Company and the T-HT Group for the Business Year 2009 consisting of the Annual Report on the Status and Business Operations of the Company and the Consolidated Annual Report on the Status and Business Operations of the Company (hereinafter referred to as “Annual Report”).*

The Company applies the Corporate Governance Code that was jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter referred to as “the Agency”) and the Zagreb Stock Exchange Inc. Zagreb, and which was adopted by the Agency’s Decision dated 26 April 2007 (“Official Gazette”, No 46/07). The Code is published on the web-site of the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)).

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

- The Company does not publicly announce and update the complete list of shareholders with the number and class of shares they own because T-HT has more than 250,000 shareholders. The Company tracks its trading performance and number of shareholders on a weekly basis. The ownership structure is shown on the Company’s web-site, while a detailed list of shareholders is maintained by the Central Clearing Depository Association which regularly publishes the list of the ten biggest shareholders on its web-site in accordance with the relevant regulations. The Company’s web-site contains a link to the Central Clearing Depository Associations' web-site (Part 2.5.1. of the Code).
- The Company does not publish on its web pages records of securities issued by the Company that are owned by Members of the Supervisory Board or the Management Board of the Company. However, all dealings in the Company’s shares that are undertaken by members of the Supervisory Board, members of the Management Board, persons closely related to them and other persons who have access to privileged information, are promptly reported to the relevant stock exchanges, the Croatian Financial Services Supervisory Agency and are also announced to the public on the Company’s web-site (Part 2.5.3.).
- The Company does not provide, without additional expense, proxies for shareholders who for whatever reason are not able to vote at the Assembly, such that those proxies will vote at the Assembly in compliance with the shareholders' instructions. Shareholders who are not in a position to vote in person at the Assembly by themselves should at their own discretion determine suitable proxies who are obliged to vote in compliance with the shareholders' instructions (Part 3.1.1.7.).
- The date on which the shareholder becomes entitled to payment of dividend was not set as recommended by the Code. The dividend date was set as the date of the holding of the General Assembly at which the decision on dividend payment was passed as in accordance with the Companies Act (Part 3.1.3.2.).
- The Company sets the conditions for participation at the General Assembly in accordance with the Companies Act and the Company’s Articles of Association (Part 3.1.5.).
- At previous General Assembly meetings shareholders have not been given the opportunity to participate by means of modern communication technologies. Such participation will be implemented in the future to the extent that it is practical (Part 3.1.8.).
- The Supervisory Board is not composed mostly of independent members. Only two out of nine Supervisory Board members are independent members (Part 3.2.2.).
- The Company does not have a long-term succession plan. The Company has introduced a number of Human Resources projects including management assessment through performance reviews, with related training and development activities. Upon their full implementation, a meaningful long-term succession plan can be developed. (Part 3.2.3.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to Supervisory Board members’ contribution to the efficiency of

the Company (Part 3.2.5.).

- The Compensation and Nomination Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 3.2.11.1. and 3.2.11.2.).
- The Audit Committee is not composed mostly of independent members of the Supervisory Board. One out of three Committee members is an independent member of the Supervisory Board (Part 3.2.11.3.).
- The Supervisory Board did not prepare an evaluation of its work in the past period (Part 3.2.15.).
- The remuneration strategy adopted for Management Board and Supervisory Board members is based on Deutsche Telekom's Guidelines, adapted for local needs. The Statement of the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The remuneration of the Management Board and the Supervisory Board are disclosed within the Annual Report (Part 3.3.3.).
- The remuneration paid to the independent external auditors for the audit and other services rendered is disclosed within the Annual financial statements (Part 4.1.).

### Internal Control and Risk Management

The Audit Committee of the Supervisory Board of the Company was established in April 2002. The Audit Committee's principal responsibilities are the preparation of the decisions of the Supervisory Board of the Company and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within the Company. Revisions to the Audit Committee's term of reference were adopted in November 2006, amended in 2008 and adjusted in accordance with the Sarbanes Oxley Act and the Croatian Audit Act. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

In executing its activities, the Audit Committee is authorized to:

- request the necessary information and supporting documentation from the management and senior employees of the Company and from external workers,
- participate at meetings held within the Company on issues that fall under the scope of activities and responsibilities of the Audit Committee,
- appoint advisors to the Audit Committee on a permanent basis or case by case if needed,
- obtain, at the Company's expense, external legal or other independent professional advice on any matter within its terms of reference provided that such advice is needed for the fulfilment of the Committee's scope of activities and responsibilities.

The Corporate Internal Audit of the Company performs an independent monitoring function on behalf of the Management Board and informs managers with comprehensive audit reports (findings and proposed improvements). Implementation of the annual Audit Program contributes to the minimization of risks and the improvement of operational efficiency. In February 2006, latest amended in February 2008 and updated in December 2009, the Management Board adopted the Audit Manual of the Corporate Internal Audit of the Company.

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

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



### Significant Company Shareholders

The majority owner of the Company is Deutsche Telekom, with 51 per cent of shares. The Republic of Croatia owns 3.5 per cent of shares. The War Veterans' Fund owns 7.0 per cent of shares, while 38.5 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors.

The President of the Management Board of HT – Hrvatske telekomunikacije d.d., Mr. Ivica Mudrinić, owns 4,569 shares in total; Mr. Jürgen P. Czaprán, MB Member, owns 185 shares in total; Mrs. Branka Skaramuča, MB Member, owns 200 shares in total; Mrs. Irena Jolić Šimović, MB Member, owns 45 shares in total; Mr. Josip Pupiće, Supervisory Board Member, owns 1,069 shares in total and Mr. Ivica Mišetiće, Ph.D., deputy Chairman of the Supervisory Board, owns 63 shares in total.

### Appointment of the Management Board, its functions and the Amendments to the Article of Association

The members and President of the Management Board are appointed and removed by the Supervisory Board. Their term of office is up to five years, with the possibility of re-appointment. Pursuant to the Company's Articles of Association, the Management Board consists of between five and seven members. Through 2009 the Management Board had six members: the President of the Management Board and CEO; MB Member and Chief Operating Officer Fixed and Broadband (COO T-Com); MB Member and Chief Technical Chief Information Officer Group (CTO/CIO Group); MB Member and Chief Human Resources Officer (CHRO); MB Member and Chief Operating Officer Mobile (COO Mobile) and MB Member and Chief Financial Officer (CFO).

Member of the Management Board and Chief Operating Officer Mobile (COO Mobile) has resigned from his position effective as of 30 September 2009.

Merger of T-Mobile Croatia LLC to HT – Hrvatske telekomunikacije d.d. entered into the court register of the Commercial Court in Zagreb on 31 December 2009 and thereby T-Mobile Croatia LLC ceased to exist. 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.

The Supervisory Board has agreed the division of competences among Management Board members as part of the reorganization of the Company and creation of Residential and Business units. In line therewith, as of 1 January 2010, the Management Board consists of the following members: the President of the Management Board and CEO; MB Member and Chief Financial Officer (CFO); MB Member and Chief Operating Officer Residential (COO Residential); MB Member and Chief Operating Officer Business (COO Business); MB Member and Chief Technical and Chief Information Officer (CTO/CIO) and MB Member and Chief Human Resources Officer (CHRO).

The Management Board needs prior approval from the Supervisory Board if it wishes to propose any amendments to the Articles of Association at the Annual General Assembly.

### Authorities of the Management Board Members

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

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

### The composition and functions of the Supervisory Board

Pursuant to the Company's Articles of Association, the Supervisory Board consists of nine members. Eight members are elected by the General Assembly and one is appointed by the Company's employees. The Supervisory Board is responsible for the appointment and removal of Management Board members as well as for supervising the management of the Company's business affairs. Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board. The Supervisory Board establishes the Compensation and Nomination Committee and the Audit Committee.

## 2. BUSINESS REVIEW 2009

### 2.1. Market Overview

#### Strong performance despite a challenging economy

T-HT Group successfully maintained its leading position in the Croatian telecommunications market despite the intensified competition and the serious downturn in the Croatian economy.

For T-HT, the key events of 2009 included:

- In February 2009, T-HT Group released its financial results for the year ended 31 December 2008 confirming its leadership position in a fully-liberalised market worth around HRK 15 billion.
- Also in February, the Regulator decided on the new fixed and mobile interconnection charges that became effective from March, with decreases up to 20%.
- In April 2009 Iskon, T-HT's wholly owned subsidiary, introduced its own IPTV service together with a triple-play offer, highlighting T-HT's strategic focus on broadband and broadband-related services.
- In May 2009 T-HT Group exceeded the number of 500 thousand ADSL broadband customers.
- From 31 July 2009 the highly anticipated new iPhone 3GS became available in T-Centres.
- On 1 August 2009 the new personal income tax, as well as 6% tax on mobile telephony revenues, entered into force as part of the Government measures to combat the recession.
- Based on the Croatian National Bureau of Statistics' official release from September 2009, the final consumption expenditure of households, as the largest component of GDP, decreased by 9.4% in Q2 2009 compared to the same quarter of 2008.
- On 29 October 2009, T-Mobile and HT signed a Merger Agreement based on which the two legal entities were combined at the beginning of 2010, with HT d.d. remaining the sole legal entity. Following this reorganisation, which became effective on 1 January 2010, the Group has been organized into Residential and Business units.
- In November 2009, T-HT entered the market to supply small and medium-sized enterprises with information and communication technologies such as its desktop management service.
- MAXtv reaches its 200,000th customer in November 2009.

#### Market trends

The most important telecommunications trends of 2008 remained significant in 2009: strong growth in broadband and IPTV, increasing demand for Internet content, continued decline in fixed telephony in line with world-wide trends, mobile penetration approaching saturation and increasing demand for mobile data services, driven by smartphones and mobile broadband.

#### Macroeconomic environment - Croatian economy hit badly by the global economic downturn

According to the Croatian Ministry of Finance, Croatian GDP decreased by 5.0% in 2009 – one of the biggest falls in the past ten years. Unemployment rose throughout 2009 with registered unemployment at 14.7% in September 2009, compared to 12.7% in September 2008. Inflation remained stable with an estimated annual inflation rate of 3.0%.

#### Fixed-line market - T-HT maintained leadership against expected market decline

Fixed telephony remains competitive in Croatia, with nine operators active in 2009, the same as in 2008. T-HT maintained its leadership position with a market share of approximately 84%. This success reflects the Group's continuing dedication

to high-quality services and improved marketing with offers tailored to suit the needs of specific customer segments. In support of these efforts, T-HT strengthened its sales channels with the integration of the T-Com and T-Mobile sales organizations in 2009.

According to the Croatian Central Bureau of Statistics, the number of fixed-line minutes decreased by 7.6% in the first nine months of 2009. This is consistent with fixed-line declines elsewhere in Europe. There was no significant change in fixed-line penetration, which reaches 42% of the population, according to the National Regulatory Agency.

### **Mobile telecommunications - T-Mobile maintained leadership in a maturing market, with increasing demand for mobile internet**

T-Mobile remained the leader in a saturated market, with mobile penetration of an estimated 137.7% served by three operators since 2005. Total Croatian mobile market minutes increased by 6% in the first nine months of 2009. Increasing demand for mobile Internet was a significant feature of 2009, with all three operators promoting mobile broadband offerings that encouraged customers to increase data usage.

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

T-HT Group is by far the largest provider of broadband services in Croatia, continuing to expand the roll out of its high-speed MAXadsl offering and augmenting it with premium services such as MAXtv – the Group's IPTV service. At the end of 2009 the Group had 554,995 of ADSL customers, up from 472,654 in 2008, representing a broadband market share of 86%.

Despite the strong increase in subscriber numbers, Croatia's broadband market remains a significant growth opportunity for T-HT, with just 35% of Croatian households connected via broadband compared to an average of 55% in Western Europe.

By the end of 2009, MAXtv had 235,980 customers representing 43% of T-HT's total ADSL customer base. Since its launch in 2006, MAXtv has become one of Europe's most successful IPTV services. It now has 120 channels offering Croatian and international TV and films, with premium services including video-on-demand, web and SMS recording, and reading mails from inbox.

### **Data - Market continuing migration to IP-based services; quality of service secures T-HT's leading position**

T-HT maintained its leadership of a market that is migrating from traditional unmanaged data services to more cost effective, IP-based services. Although the data market is relatively small, representing less than 2% of total Croatian telecom revenues, it represents an important service for business customers. The Group's main data service competitors continued to develop their own networks targeting the corporate and government sectors.

### **Wholesale - Domestic and international competition; T-HT the largest player with the most extensive network coverage**

T-HT Group established interconnection with all mobile-network operators and fixed-network operators in Croatia. Both, ULL (unbundled local loop) and bitstream offers are available in the Croatian market enabling competitors to offer their own broadband products to consumers, even if they do not operate the local loop. In terms of total market revenues, the overall Croatian wholesale market remained stable in 2009. As the market liberalization continued, number of ULL customers increased from 87,072 in 2008 to 123,054 in 2009.

## 2.2. Regulatory Environment

The new Law on Electronic Communications, which replaced the previous Law on Telecommunications, has been in force since July 1st, 2008. The new Croatian regulatory regime transposed the 2002 EU New Regulatory Framework onto Croatia's electronic communications market.

In accordance with the new Law on Electronic Communications, the Croatian National Regulatory Authority – the Croatian Agency for Post and Electronic Communications (the “Agency”) – is authorized to pass subordinate legislation. Thus, its authority encompasses aspects of telecommunications including duct and infrastructure issues, right-of-way fees, conditions of service provisioning, universal services, and the prevention of fraud and abuse.

In 2009 several new Ordinances entered into force. From the Group's perspective some of the most important are: Ordinance on the method and conditions for providing electronic communications networks and services; Ordinance on universal services; Ordinance on the method and conditions for access to and joint use of the electronic communications infrastructure and related equipment; Ordinance on the certificate and the fee for the right of way; Ordinance on numbering, addresses and radiofrequencies fees; Ordinance on the Agency's fees; Ordinance on allocation of numbers and addresses; Ordinance on number portability; Ordinance on reference offers.

In February 2009 the Company, T-Mobile and Iskon submitted prior notifications to the Agency, in line with the prescribed transition towards the general authorization regime. T-Mobile concession agreements, concluded on the basis of regulations that were previously in force in the telecommunications sector as well as other licenses and notifications for providing telecommunications services granted to the Company, T-Mobile and Iskon, ceased to apply as of the date of issuance of the Agency's certificate on receipt of prior notifications.

Since 2002 the Company has held SMP (significant market power) status in the market for fixed public voice, the market for leased lines, the market for interconnection and the market for voice and data transmission. In 2007 the Company's subsidiary Iskon Internet was designated as holding joint significant market power with the Company in the market for fixed public voice and the market for voice and data transmission. Since 2004 T-Mobile has been designated as an SMP operator in the interconnection market and in the market for public voice services on mobile telecommunications networks. The SMP status of the Company, T-Mobile and Iskon in these markets was reiterated by the Agency's publication of a list of SMP operators in December 2007. Such SMP designation was based on the old regulatory framework that was in force until July 2008.

As a consequence of the new Law on Electronic Communications, a new regulatory framework was introduced in which regulatory remedies may be imposed only after relevant markets are defined and analyzed for the existence of market failures (i.e. the existence of operators with SMP).

In line with this new regulatory framework, and taking into account the latest EU recommendations, the Agency undertook a new round of market analyses in the period between the end of 2008 up to the middle of 2009. Market analysis procedures were finalized in July 2009 by the Agency's decisions on SMP status and the imposition or removal of regulatory obligations for the following markets:

1. Call origination on the public communications network provided at a fixed location
2. Call termination on individual public communications network provided at a fixed location
3. Wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location
4. Wholesale broadband access
5. Call termination on individual public mobile network
6. Public telephony service in mobile networks
7. Access and call origination in mobile networks
8. Call transit in the fixed public communications network
9. SMS termination

By its decisions of July 2009, the Agency designated the Company as the SMP operator in markets under 1, 2, 3 and 4 above, Iskon was designated as the SMP operator in the market under 2, while T-Mobile was designated as the SMP operator in the market under 5 above. With regard to markets under 6 – 9, the Agency concluded that they no longer fall under scope of ex-ante regulation, and thus withdrew all existing obligations imposed upon the Company and T-Mobile in these markets.

In markets where the Company, T-Mobile or Iskon were designated as SMP operators, remedies that were in place before the market analysis ceased to apply.

The following remedies were imposed by the Agency's decisions of July 2009:

I. Network access and use of special network facilities

II. Non-discrimination

III. Transparency

IV. Price control and cost accounting

V. Accounting separation (applies only to the Company; cost accounting project, which was initiated in the end of 2008, is ongoing)

In addition, by its decisions of July 2009, the Agency decreased the following Company and T-Mobile wholesale prices:

- Shared ULL price was reduced to 21.46 HRK, with effect from October 1st, 2009,
- Single tandem origination fee in fixed network was reduced to 6.8 lp/min (50% off-peak), with effect from January 1st, 2010
- Single tandem termination fee in fixed network was reduced to 6.7 lp/min (50% off-peak), with effect from January 1st, 2010
- IC call set-up fee in fixed network of 1.5 lp/min was abolished, with effect from January 1st, 2010
- Mobile termination fee was reduced to 0.56 HRK flat rate, with effect from January 1st, 2010

The existing SMP status of the Company in the market for leased electronic communications lines, and the joint SMP status of the Company and Iskon in markets for public voice and data transmission, as determined by the Agency in 2007, remains. According to existing remedies in these markets, prices for retail public voice in the fixed network and leased lines are subject to cost-orientation and ex-ante approval by the Agency, whereas other retail pricing is subject to ex-post review. In addition, tariffs for universal services must be set at an "affordable level". Other tariffs are essentially unregulated.

On August 31st, 2009 the Agency passed a decision on the issuance of new technology-neutral radiofrequency licenses to T-Mobile, for the frequencies already used by T-Mobile in the 900 MHz and 1800 MHz bands, for the period until October

2024. This new radiofrequency license replaced the technologically defined GSM radiofrequency license, which expired on September 16th, 2009.

In June 2009, the Croatian Parliament adopted the new Croatian Competition Act, which will enter into force on October 1st, 2010.

In the second quarter of 2009, operators Metronet telekomunikacije d.d. and Amis Telekom d.o.o. initiated legal proceedings against the Company, claiming damages for alleged delays in providing co-location services, and for the annulment of the Contract on the lease and use of DTI. The case is pending before the Croatian Commercial Court.

The new Law on Fees for Providing Services in Mobile Electronic Communications Networks entered into force on August 1, 2009. Based on this law, the Group is obliged to pay a monthly fee to the state's budget in the amount of 6% of revenues realized from provision of publicly available telephone services, value added services, roaming services, short message services (SMS) and images, speech and sound transmission services (MMS) in the previous month.

### 2.3. T-HT's business strategy

T-HT Group Mission: **Communication, Information & Entertainment, Always & Everywhere**

Communication is a basic human need and information and communication technologies offer countless possibilities for socializing, communicating and staying in touch.

Our lives are increasingly networked, with more and more people communicating in highly individual ways through virtual forums and international platforms. Enormous volumes of photos and film clips are uploaded to the Internet and viewed every day, while virtual communities such as Facebook and Twitter attract millions of new members every month. More and more, these applications are tailored to people's needs and can be used at any time through a wide variety of input devices.

Checking e-mail and using the Internet are part of our everyday life. The Internet has revolutionised the way we spend our free time and the way we do business. We take for granted that we can access the Internet at home, in the office and on our mobile phones and we are constantly demanding faster access and better quality of service.

T-HT Group Vision: **T-HT - Leader in Connected Life & Work**

The possibilities are endless. Technology works for us, making life easier, solving problems faster, leaving us with more spare time and making our lives a lot more fun. We can do business on our way to the airport, watch our favourite TV show on the screen of a mobile phone and stay in touch with our families, friends and colleagues, using mobile and Internet-based services to share our experience, ideas and thoughts.

#### Strategic priorities

Telecoms providers are witnessing a shift in value from traditional commodity services such as voice calls to newer services such as content and ICT. This is why our strategic focus remains on building broadband and value-added services on top of our core telecoms offerings.

The Group's strategy is based on four strategic priorities:

- I Top line growth
- II Loyalty

### III Quality & efficiency

#### IV Service & culture

##### I Top line growth

###### *Continued strong broadband and MAXtv growth*

As the market leader, opportunities for growth are limited in the traditional markets of fixed and mobile telephony. The Group is therefore looking to broadband and broadband-related products such as IPTV and other content for growth. Encouraged by the success of MAXtv and tportal, the Group's goal is to strengthen its position in the media through continuous development of innovative products and services.

###### *Information and Communications Technologies*

Information and Communications Technologies (ICT) represent a natural extension of the Group's existing telecommunications businesses. In the second quarter of 2009, the Group introduced new business solutions for large enterprises. We followed this in November 2009 with the launch of a desktop management service aimed at small and medium-sized businesses. The Group is committed to expanding its ICT offerings in the coming years.

##### II Loyalty

###### *Protecting and strengthening the core business*

The Group is committed to protecting and strengthening its subscriber base with tailor-made packages and tariffs for business and residential customers, competitive pricing, premium quality services, attractive bundles and innovative offerings such as MAXtv.

##### III Quality & efficiency

###### *Investing in the fixed network*

Continuous improvement of customer satisfaction and the maintenance of high quality services require significant investment in our fixed network – the key enabler of all T-HT services. We are investing in new, all-IP core and optical-access networks to enable all future bandwidth-heavy services, such as MAXtv, rich content and mobile internet.

###### *Cost management and maintaining best-in-class profit margin*

The Group is continuously improving the quality and efficiency of its operations by redesigning processes and analyzing and benchmarking its cost structure, while at the same time reviewing capital expenditure needs to support future growth opportunities. Together, these initiatives are intended to optimise Group operating costs and protect margins in an increasingly competitive environment.

##### IV Service & culture

###### *Building a superior service culture*

The Group aims to be valued by its customers as an organisation that constantly achieves a high standard of excellence in customer service. Therefore, we are continuously working on new and innovative services customized to the specific needs of different customer segments, increasing the quality of our services and the simplicity of their use.

###### *Top-class employees*

In a market facing dynamic technological changes and constant market challenges, the development of a skilled and service-oriented workforce that understands customer needs and new technologies is vital for building customer relationships and encouraging customer retention. Recognising that knowledge rapidly becomes obsolete and that service-focused employees are its key asset, the Group invests in the education and training of staff in order to maintain a high standard of service. In this way, we are able to attract and retain first-rate people to help us build our business.

###### *Improvement of customer-related processes, aligning organization to strategy*

The Group is constantly improving and simplifying key aspects of customer service and customer relationship management. Central to this commitment, we have reorganised the HT d.d. business to focus on the distinct needs of residential and business customers. The reorganisation became effective on 1 January 2010, replacing the former Group structure based upon the fixed and mobile divisions, T-Com and T-Mobile.

## 2.4. Organization of the Group

### **Corporate Structure**

In 2009, T-HT Group took the important step of reorganizing its business along customer-focused lines. On 1 January 2010, the old divisions of T-Com and T-Mobile, serving fixed and mobile markets respectively, were replaced by a new structure based upon Residential and Business units. The process of reorganisation began in July 2009 with the realignment of sales teams and was completed with the merger of T-Mobile into HT d.d. at the end of the year.

The new organization has been developed to adapt the organizational structure along the residential and business customer facing units with integrated network and IT functions and centralized steering and support functions with the main goal of enabling full customer orientation and maximum efficiency gains.

### **Organisational Structure**

#### **Group**

The Group is run by the Management Board, which governs the management of the Group's business operations and is responsible to the Supervisory Board for the overall business results and performance of the Group. The Supervisory Board supervises the management of the Group's business and is responsible to the shareholders for compliance with the legal framework in which the Group operates.

The Group's new organization is based on support and steering functions (CEO, CFO and CHRO), technical functions (CTO/CIO), customer facing unit business (hereinafter: Business) and customer facing unit residential (hereinafter: Residential) and a number of smaller subsidiaries.

#### **Business**

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

#### **Residential**

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



## 2.5. T-Com

### Overview

The Croatian fixed-line market continued developing throughout 2009, a year in which:

- All competitors struggled in the market hit by recession
- T-Com confirmed its firm leadership position in all segments
- T-Com's ADSL maintained its dominance of the rapidly-growing broadband market, reaching 554,995 mainlines and remaining by far the most popular choice among Croatian Internet users
- MAXtv reached 235,980 customers, as a result of strong marketing efforts
- T-Com's Data services – The transition towards new services continued, Metro Ethernet showed respectable revenue growth
- T-Com's wholesale - despite domestic and international competition remained the largest player with the most extensive network coverage
- T-Com continued with the offering of Net Phone Packages

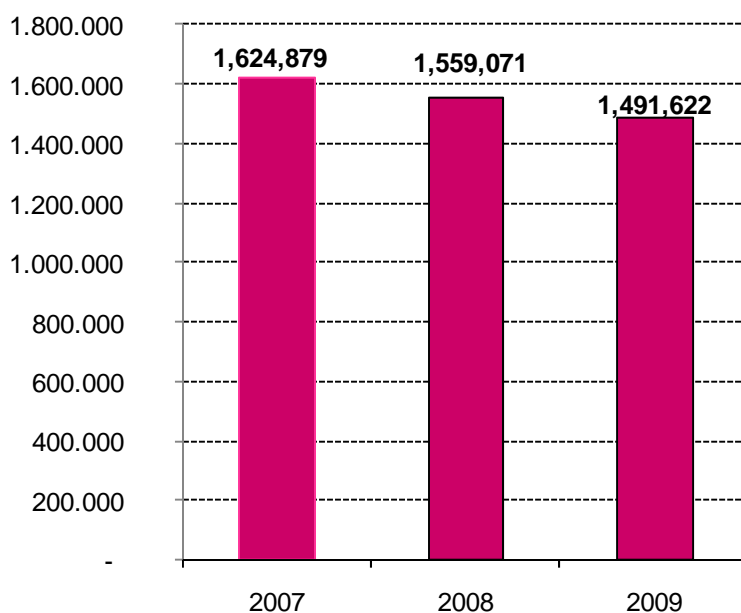
Total revenue from T-Com decreased by 2.8% to HRK 5,044 million in 2009 (2008: HRK 5,191 million). The decrease in T-Com's revenue was primarily due to the decrease in the fixed-telephony customer base and fixed-telephony traffic mainly caused by the fixed-to-mobile substitution. The decrease was partially offset by the increase in the revenue from Internet services, particularly ADSL and IPTV.

### Major Achievements in 2009

#### Fixed telephony

T-Com continued to hold its market-leading position with 1.49 million fixed telephone mainlines at the end of 2009, 4.3% less than at the end of 2008. The number of access mainlines provided by T-Com has declined as a result of the global market trend and the increasing competition in the fixed-line market, including direct access to competitors' newly built infrastructure and ULL.

**T-Com total mainlines**



As at 31st December 2009, 93.2% of mainlines were POTS and FGSM, 6.2% were ISDN and 0.5% were payphones. The migration from ISDN to POTS mainlines was mainly due to ADSL.

At the end of 2009, voice traffic for T-Com's retail fixed line users amounted to 3,464 million minutes, which was 8.8% less than the same period previous year. T-Com's offer and service remained attractive despite competitors' strong price attacks.

ARPA decreased by 7.9% compared to the same period last year. The decrease is primarily attributable to fixed to mobile substitution and to increase in VoIP usage.

In order to stimulate the traffic, T-Com introduced new flat tariffs Non Stop and Slobodno Vrijeme Plus. Both tariffs offer 60 minutes of any call for free (Slobodno Vrijeme Plus only in off peak time) with only set up fee charged. As the biggest traffic decrease was in calls to mobile networks, a couple of initiatives were launched with the intension to increase fixed-to-mobile minutes of usage.

Additionally, T-Com continued the migration of users from Halo tariffs to the Super packages (Super 60, Super 150 and Business Super 500 promos) in order to increase the value of fixed-line accounts, drive customers towards future flat-fee models and improve customer satisfaction, while at the same time improving T-Com revenues and decreasing customer churn.

As part of its commitment to provide telecom services for all members of Croatian society, T-Com offers Super 30, a low-cost package for those receiving social welfare, with a monthly subscription of HRK 30 (excluding VAT).

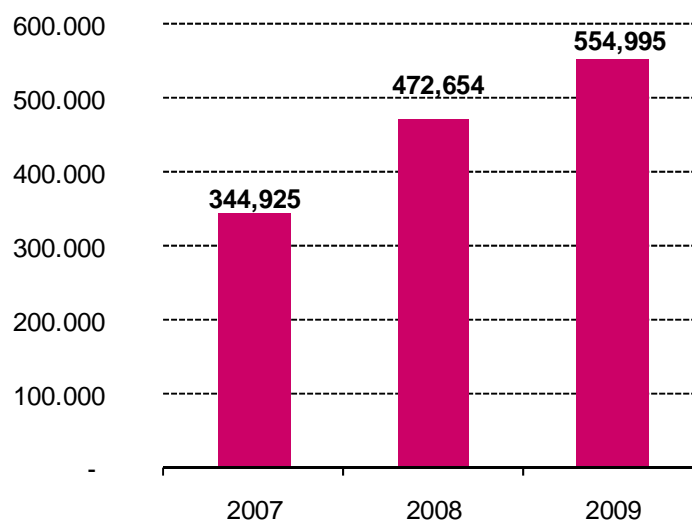
#### Internet services

Internet services are provided through T-Com and Iskon. The Internet services offered by T-Com comprise Internet access (dial-up and broadband) and related traffic, IP VPN, IP Centrex (VoIP), IPTV, content and multimedia services including ASP and web hosting.

**ADSL:** At the end of 2009, there were 554,995 ADSL mainlines, up 17.4% from the same period in 2008. This increase was achieved through a combination of increased ADSL speeds, attractive pricing and constant efforts to enrich multimedia content available to subscribers.

The speeds upgrade significantly improved the quality of T-Com's ADSL service while various gadget campaigns were launched in order to facilitate the acquisition and retention process. Efforts to increase the customer base and ARPU included campaigns that promoted flat-pricing plans. The result was ARPU increase from HRK 120 in 2008, to HRK 125 at the end of 2009 and 27.7% revenue increase from the previous year.

#### T-Com ADSL users



**MAXtv:** On December 31st, 2009, T-Com had 235,980 MAXtv customers, representing 74.1% increase from December 2008 (135,573 customers). We attribute this success to a combination of premium content, constant product improvement and various initiatives encouraging customers to start using MAXtv.

Premium content packages offer exclusive channels & programs including HBO, HBO Comedy and HBO on demand and an increasing number of Video on Demand titles from major studios including MGM, Paramount and NBC.

Aggressive acquisition marketing efforts were followed by strong communication campaigns and supported with numerous initiatives offering Try and Buy concept, HRK 1 subscription fee for a certain amount of months or a gadget with MCD. All initiatives were launched for both standard and stand-alone MAXtv.

A new IPTV service for hotels was launched. MAXtv for hotels includes new graphic user interface, new STB load and content with rights for hotels.

Snimalica was as well upgraded and redefined. New offer to customers included Snimalica 10 and Snimalica 30, allowing customers that for a monthly fee record 10, or 30 minutes of content, respectively.

**IP Telephony:** An improvement is observed in IP telephony because of promotional campaign related to Net Phone customers connected via ADSL (SME packages) and introduction of installation for HRK 1 as permanent offer.

**IP VPN & Net Pro:** As the leading technological service provider, T-Com is proactively migrating its existing traditional data customers to IP VPN services resulting in a significant 47.3% increase in comparison to the end of 2008. Net Pro customers increased 12.3% comparing to the same period last year. To remain competitive and to align offer with MAXadsl business offer, T-Com has adjusted NetPro and VPN services' prices.

Iskon continued strong expansion in all customer segments in 2009, which resulted in completed fulfillment of the Strategic Plan. In terms of revenues Residential Broadband grew by more than 68%, SME broadband by 35%, while business services in Key Account and Wholesale area posted gains by more than 14%.

The main event this year for Iskon was the launch of IPTV service in April, which proved to be the biggest growth engine in the residential segment for the remaining of the year. With the IPTV on board, Iskon was able to launch first fully integrated (voice, data and TV) triple play service in Croatia which gained significant traction by media and our customers. Increased revenues and tight control over the expenses improved Iskon's EBITDA by 44.1% compared to last year. By continuous investment in our customers and operational efficiency, the Management's top goal in the future will remain on EBITDA improvements and creation of shareholders value.

#### Tportal.hr

In 2009 Tportal.hr maintained its position as one of the largest Croatian news portal, with 700,000 unique visitors per month according to Gemius, an independent Internet traffic research agency.

In 2009 Tportal.hr has undergone a redesign as well as significant personal changes in the editorial board. It's most important strategic projects included several thematic microsites, such as a separate website for presidential elections which covered the events related to the election extensively, through news, photo and video coverage. Several new hot columnists and celebrity bloggers led to the improvement in quality of content, and repositioned portal in terms of relevance.

Services like shopping, playtoy, fonoteka, maxzona, daily and webmail are just small fraction of what tportal has to offer, including more than 40 regular content sections. Content is available through PDAs, mobile devices, SMS information alerts and T-Mobile WAP portal, and on social networks like Facebook and Twitter. In addition, T-Mobile iPhone users enjoy a customized interface when browsing tportal.

### Data services

In 2009, T-Com focused on the migration of customers from traditional data towards new services such as Metro Ethernet and IP VPN, supported by promotional efforts.

The number of lines provided by T-Com declined 3.7% in comparison to December 2008. Although T-Com faces competition in respect of both Metro Ethernet and IP VPN services, we believe T-Com's main advantages over its competitors are its network coverage and the quality of its service.

### Retail sales channels

T-Com's sales organization comprises three centrally-headquartered sales departments: key and large business accounts, small and medium-sized business accounts and residential sales.

Major achievements in the sales organization in 2009 are:

- Enhancement of the own retail network through opening of new T-Centers and refurbishment/relocation of some of the existing ones
- Enhancement of the indirect partners network via deeper market coverage and harmonization of the T product portfolio
- Introduction of the new sales channels to be even closer to the customer (stands in selected shopping malls)
- Introduction of payment machine for customers' bills payment in T-Centers
- Excellent achievements in the area of customer related processes and in bringing our services closer to the customers
- Right business policy toward different customer/industry needs in business segments supported by balancing with different sales channels and consultancy approach

### Wholesale

#### International wholesale market

Even with strengthened domestic competition and the increased activities of foreign operators in the market, 2009 was a successful year for T-Com wholesale international market. Total revenue decreased by 9% due to increased competition and significant drop of prices in the international market. On the other hand, total costs of purchased international services decreased by 21% compared to 2008.

T-Com flexible interconnection policy resulted in an increase in the number of international voice and data interconnections from 47 in 2008 to 60 in 2009. Despite of fixed to mobile substitution and recession influences, the volume of international traffic terminated to Croatian fixed network via T-Com wholesale increased by 14% compared to previous year, as a result of increased sales activities and strengthening of T-Com's competitive position in the regional market.

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

A decline in Internet upstream costs and further network expansion strengthened the competitive position of T-Com in international markets. In 2009 T-Com wholesale entered the new, Serbian, IP market, proving the domination in surrounding markets. In the market of Bosnia and Herzegovina T-Com wholesale reached the IP market share of around 75%. Total volume of IP services sold in international market was more than tripled compared to 2008.

#### Domestic wholesale market

In 2009, there was slight growth of the interconnection market based on the variety of services and the volume of their usage, although not at the same pace as in the previous year. The strategic focus of operators on ULL (Unbundled Local Loop) was still evident in 2009, resulting in an increase in number portability and stagnation in the number of active carrier pre-select (CPS) customers compared to previous years, due to the migration of former CPS customers to ULL services.

The main activities of the Wholesale business in 2009 were related to the activation of new ULLs and expansion of local interconnections via their own infrastructure. Beside co-location for ULL purposes (261 MDF locations), operators are present at 63 local switches and 44% IC relations was realized via their own infrastructure. The number of delivered ULLs

at the end of 2009 increased to 123,054 and growth in the ULL customer base also supported slight increase in national terminating minutes.

Despite the facts that total number of terminated minutes into T-Com network looks pretty stable (slightly growing) for the moment, there is a trend of shifting mobile originating minutes from direct traffic routes and termination of those minutes via alternative fixed operators. Main driver is debt compensation between mobile and alternative fixed operators and price arbitrage arising from local interconnection established by fixed operators.

The Value Added Services (VAS) market stagnated in year 2009 as a result of unfavorable regulatory conditions imposed to T-Com.

The Data / Capacity market remained stable through 2009 in spite of strong competition and lower margins. Mobile operators remain the biggest capacity consumers due to the growth of mobile broadband networks and increasing fixed-to-mobile substitution.

## 2.6. T-Mobile

### Overview

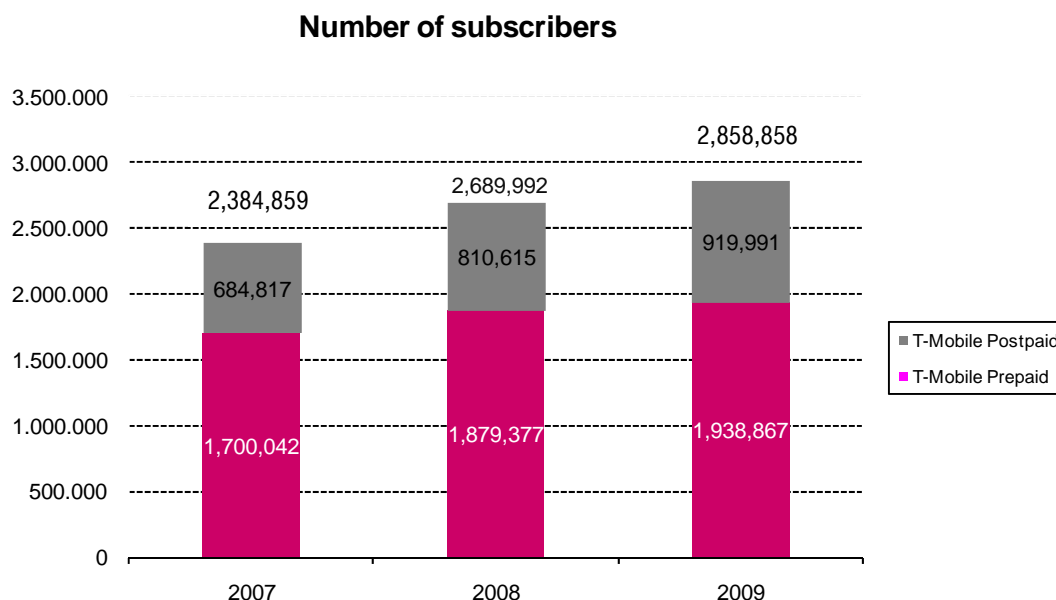
Year 2009 was marked with following market accomplishments:

- Confirmed the overall market leadership in the competitive Croatian mobile communications market with 46.7% of SIM market share
- Reached 2,859 thousands subscribers
- Offered an array of new products/services (e.g. netbooks, Stick2CARNet) and options that were created to fulfill specific needs in residential segment
- Offered unique postpaid tariff on the market fitting the needs of young people
- Unique weekly options for prepaid users and Simpa Internet daily option, offered for the first time in the market
- The business segment needs were met with Ured za van, the first product in the market that provides full business solution: integrating voice, data and hardware

### Major Achievements in 2009

During 2009, mobile penetration in the Republic of Croatia increased from 132.4% at the end of 2008 to 137.7%<sup>1</sup> at the end of 2009.

T-Mobile maintained its market-leading position with a 46.7% share of SIMs (2008: 45.8%). At the end of 2009, T-Mobile had more than 919,000 postpaid customers (2008: 810,615) and more than 1,938,000 prepaid customers (2008: 1,879,377). Through a series of successful marketing campaigns aimed at converting prepaid customers to postpaid accounts, T-Mobile's share of postpaid in total customer base rose from 30.1% to 32.2% during 2009.



<sup>1</sup> Source: published VIPnet's and Tele2's quarterly report for 4Q 2008. Number of subscribers for VIPnet and Tele2 for 4Q 2009 are internally estimated.

## Products and Services

During 2009, T-Mobile offered an array of new products that were created to fulfill specific needs of different segments of customers. For the first time in the market, T-Mobile launched weekly paid options for prepaid customers achieving great success. Additionally, Simpa Zabava tariff was launched in March. During the last quarter of 2009 T-Mobile offered to its prepaid customers Extra minutes and data traffic that can be obtained after topping-up of Simpa account.

T-Mobile also launched first postpaid tariff in the market named Mrak fitting to the needs of young people. Also, T-Mobile celebrated second birthday of very successful Flex Obitelj tariffs designed specifically for families. In order to allow flexibility to postpaid users they could choose one of the offered paid options for free when signing their contract. Additionally, Tarifa po mom tariff was launched in order to satisfy the needs of customers that want to enjoy postpaid benefits without worrying about monthly fee. For customer to whom the music is important T-Mobile launched Play Now Plus option.

T-Mobile has also offered a package designed for CARNet users – Stick2CARNet. Residential customers' needs in data segment were addressed with Mobile Internet promo offer, Simpa Internet offer and daily Simpa Internet paid option, as well as with the launch of Asus and Lenovo netbook offers. Exclusively in the market T-Mobile offered to its customers new, upgraded version of iPhone device – iPhone 3G.

Business segment needs were met by extension of our successful offers of Flex Team and Ured za van. Ured za van, the first product in the market that provides full business solution: integrating voice, data and hardware, continued its successful development. Additionally, T-Mobile has offered solutions targeting specific market segments in order to satisfy customer requirements in those segments. For example, offer targeting crafts designed in cooperation with Chamber of Crafts, new tariff that is designed for start-up companies (Flex Business Start tariff) and Flex Team seasonal offer.

## Sales Developments

T-Mobile and T-HT continue to optimize their own and partners' retail network and further to develop service and relationship with the customers. Activities to increase sales efficiency and service level in the shops and in the customer services are continuous.

Major achievements in Sales were:

- Enhancement of the own retail network through opening of new T-Centers and refurbishment/relocation of some of the existing ones
- Enhancement of the indirect partners network via deeper market coverage and harmonization of the T product portfolio
- Introduction of the new sales channels to be even closer to the customer (stands in selected shopping malls)
- Introduction of payment machine for customers' bills payment in T-Centers

The most significant achievement within the area of customer related processes and in bringing our services closer to the customers is the increase in efficiency of self-service tools, which brings easier information access for customers, and provides additional savings for the Company.

## 2.7. Network and Information Technologies

### Network

The area of Network and Service Platforms with the underlying infrastructure is literally the backbone of T-HT. According to T-HT strategy, the goal is to achieve a maximum of customer satisfaction with cost efficient, flexible and reliable infrastructure.

T-HT has chosen strategy to provide all services via one common broadband (BB) network port. That means access and voice network transformation must be done. Access network transformation is carried out through new optical access network, optical access platform (GPON) and selective modernization of copper access network therefore, in these segments, investment cycle has been started. Besides that, existing PSTN network should be functionally upgraded to enable VoIP telephony provision on BB port. The Croatian regulatory body imposed obligation to T-HT to announce to other operators 5 years in advance its detailed plan for termination of its copper access network as well with to other by-laws, related to fiber access network, insisting on bitstream on fiber optic, as prerequisite for further commercial customer's acquisition on optical fiber access infrastructure and optical in house installations.

During 2009, the focuses in the area of fiber optical, broadband, transport and IP/MPLS platforms were:

- Continuous broadband roll-out deployment on fiber-optic infrastructure. EoY results: 40 GPON nodes installed, FTTA (fiber to the area) – 215,228 customers reached, FTTH (fiber to the home) – 34,740 customers reached and 2,114 commercial customers connected with broadband services provisioned;
- Regulatory Agency (HAKOM) issued additional obligations to T-HT in the area of bitstream services (BSA). BSA services are extended with QoS based voice and IPTV requests and BSA must be offered on the new optical fiber access network, as prerequisite for further optical fiber commercial customer's acquisition;
- Further roll-out of proven DSLAM (Digital Subscriber Line Access Multiplexer) infrastructure covering 98% of Croatian population by the end of 2009 with a total of 802,000 ports. In 2009, additional 175,000 ADSL ports have been deployed;
- Continues upgrade of core transport platform (16 IP/MPLS routers and 45 Ethernet switches installed) in order to cope with increasing capacity demand. Extension of fiber optic backbone network in Region 4 – west ring and Region 3 – east ring and deployment of new regional transport (DWDM) ring in Region 3 and Region 2 (international connectivity to BIH) enabled migration to 10 Gbit/s Ethernet. 40 CWDM installed to improve QoS ADSL platform by removing DSLAM cascades or to connect new DSLAMs. UMTS SWOP Project has been supported by transport capacities extensions. 50 new radio-relay links and 280 MSPP equipment are mainly installed for T-Mobile network;
- T-HT's IPTV platform (Internet Protocol Television) is upgraded to new software - Home Entertainment 3.0 server and client software - in order to provide more interactive features and better customer experience to T-HT's customers. Regarding capacity, it is extended up to 300,000 customers. Also, all MaxTV channels are protected with an error correction tool called VQE that eliminates automatically minor degradation of video quality due to insufficient quality of the access network;
- Small-scale platform for Hotel IPTV solution is fully functional. Hotel platform reuses residential MaxTV platform channel lineup, digital rights management, network and video on demand resources, only by adding middleware servers. Hotel user interface is finished, too;
- Voice service (HALO) redefinition is done in order to support future residential voice (VoIP) platform. Residential VoIP platform (preIMS) is tested, and ready for migration pilot;
- Termination of X.25 platform and migration of its business customers to future-proof Metro-Ethernet and IP/MPLS products. After the Telex-platform, this is the first data platform that is migrated according to T-HT platform strategy that focuses on simplification and reduction. In addition, CROLINE (legacy frame relay data network) customers have been migrated to Metro Ethernet and ATM network platforms;
- Completed the consolidation of SLA (Service Level) Agreements with major relevant service providers in area of telecommunication equipment maintenance, resulting with aggregation of existing SLA Agreements and achieved cost savings of 8.4% in relation to year 2008;



- Phase I for 6 projects of Six Sigma program completed. Total financial impact for 2009 is HRK 39 million. Service culture development program implemented. Technical field personnel are equipped with corporate uniforms and service culture education program for 600 technicians performed. Deployed operational prerequisites for customer services migration to FTTH infrastructure and over 2,000 customers migrated. Implemented ACS system for zero-touch provisioning and remote CPE management.

## IT

Information Technology is one of the key business enablers in telecommunications industry, especially in developing, providing and implementing ICT solutions for the complex and innovative telecom services. In line with overall corporate strategic goals, Sector for Information and Business Systems proceeds with series of activities in consolidation, integration and optimization of systems within information technology landscape. Sector for Information and Business Systems is already performing planned projects of different complexity scale, while at the same time providing full operational support for daily business.

Main strategic objective of Sector for Information and Business Systems is to contribute with its projects and activities to the top line growth as well as improving the bottom line efficiency. In order to support new product development, Sector for Information and Business Systems is implementing programs to decrease time to market and improve service quality thus increasing customer satisfaction.

Therefore, main efforts are directed into improving service delivery process, establishing advanced customer-market-business intelligence, and integrating T-HT Group services.

Main project achievements in the year 2009 are:

- Marketing plan/actions successfully supported and products introduced in IT systems: New T-Club award, e-Bill, MAXadsl promotional offer 2 months FLAT, Residential Subscriber Promo Tariff, promotional offers SB500 and business tariffs, Office fax, MAX3 on Halo, Home monitoring, MaxTV for hotels, Fiber-Land;
- TRGO application: Replacement of the legacy cashier solutions in T-Com and T-Mobile, to provide integrated and unique approach to customer for T-Com and T-Mobile services. Project is finished;
- Enterprise Service Bus (TIBCO) implemented. Project is finished;
- Data Warehouse: Project finished and it is enabling advanced analytical support for Sales and Marketing, Finance, OSS and Wholesale areas;
- Ascade upgrade – project initiated to upgrade of Ascade Carrier Cockpit™ release 4.5 to Carrier Cockpit™ R6.1. in order to optimize maintenance costs and mitigate business risks. Additionally, security improvements and optimization of related wholesale business processes were implemented. Project is finished;
- NICB (National Intercarrier Billing) – implementation of standard solution (Intec's Interconnect) for national Intercarrier billing system to improve and automate related processes. Project is finished;
- Information and Business Systems Sector successfully continues to execute already initiated important projects that will support company strategic goals. Such projects include: Complete Architectural Solution and Support (COMPASS) for NGN services, Business Process Management, Accounts separation (AS), CCS (Commission Calculating System), Geneva upgrade etc;
- In order for T-HT to be recognized as a company that has the highest level of security of business data managed by its information systems, project is initiated to develop prerequisites for company certification in ISO/IEC 27001 standard by implementing information security management system (ISMS). Preparations (for the Mediation systems processes) are completed and certification audit is expected to be done in Q1/2010;
- Furthermore, in the light of organizational transformation, merging of T-HT and TMHR companies as of January 2010, Sector for Information and Business Systems, initiated key project that will enable lean organization transformation and standardization of supporting IT applications, such as: SAP Transformation, TRGO transformation and HR.NET Transformation.

## 2.8. Human Resources

### Making the most of our talent to enhance business strategy

T-HT's business performance depends on the knowledge and skills of its employees. It is therefore vital that we take all possible steps to enhance professional development of our colleagues and to nurture a corporate culture based upon constant improvements in efficiency and performance.

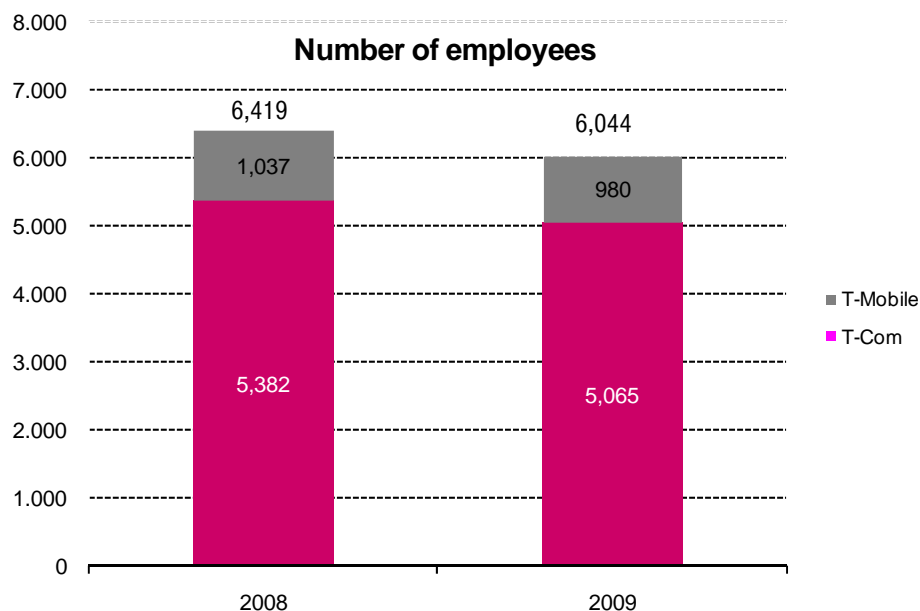
As a prerequisite for high performance at both an individual level and across the HT incentive and performance management systems are in place that align compensation with individual performance and competence.

Organizational changes and the introduction of advanced technologies necessary to keep the Group competitiveness meant that the headcount optimization program continued in 2009. At the end of the year, the Group had 6,044 employees, compared with 6,419 in 2008.

In order to enable efficient transformation, in 2009 the structure of HR Department was changed towards customer centric organization - HR as the partner to business, which puts the internal customer in the focus.

In order to foster a corporate culture based on trust, service orientation and a strong team spirit, T-HT implemented a new set of corporate guiding principles for all employees and for the Group itself. They define customer satisfaction as key driver of our efforts, the importance of integrity and respect in the workplace and the ambition to make T-HT an attractive place for colleagues to perform and develop their own capabilities.

Employee rights and benefits are governed by the ongoing Collective Agreement and the Group maintains constant dialogue and a spirit of cooperation with its social partners.



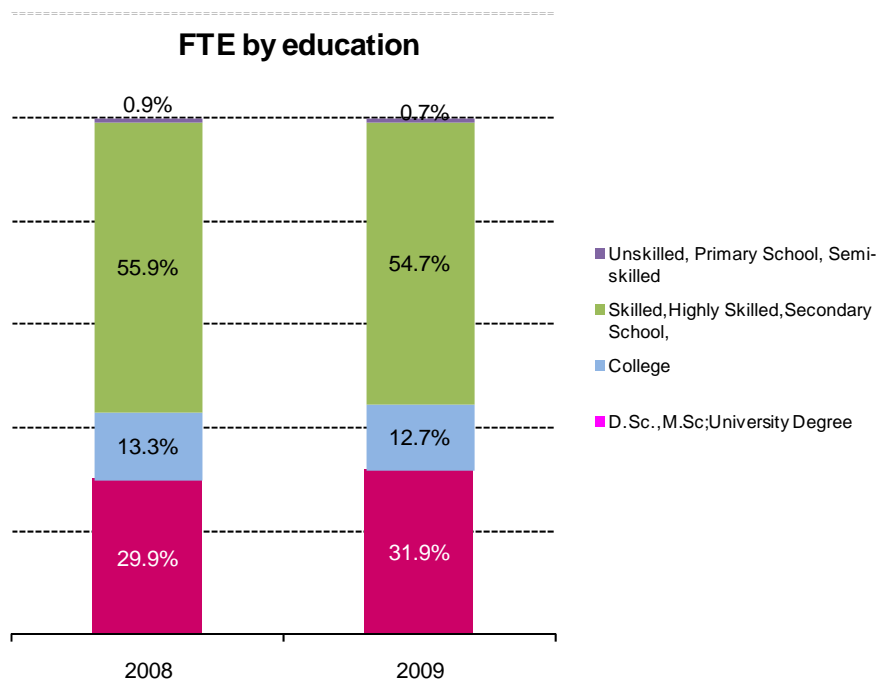
### High standards of employee development

The Group continued its program of systematic learning, knowledge and skills development throughout 2009 in order to enhance the capabilities of its staff and though this improvement achieve higher standards of service, both for customers and for colleagues.

Educational programs were mainly focused on building the leadership skills of middle management, improving customer relationship skills, project management and professional competence. Overall, more than 3,500 employees participated in at least one of our educational programs in 2009.

In 2009, initiatives for expert career development were intensified through the program for expert development (RasT) which was launched in the technical area.

Furthermore, T-HT placed strong emphasis on the recruitment and training of young professionals to support the implementation of new technologies and applications and to assure the future competitiveness of company in the developing and challenging telco market.



**The customer is central to what we do**

The Development of a service-focused and customer-oriented organization remains the highest priority for the Group. Several projects, notably the Service Role Model Award, were undertaken in support of this goal in order to promote outstanding service within T-HT and to identify and reward employees who provide excellent service to customers.

**Work-life balance**

T-HT strongly supports the health and well-being of its employees. The Group offers regular health checks as well as sport and recreation activities as a contribution to a balance between the professional and personal lives of employees.

**Feedback matters**

In order to achieve constant improvement, T-HT regularly conducts employee surveys to understand factors such as the level of employee satisfaction with the organization, the perception of career prospects and the effectiveness of staff management. Furthermore, to foster a culture of open feedback, a structured initiative for developing and enabling feedback skills was introduced.

### 3. FINANCIAL REVIEW YEAR 2009

#### 3.1. T-HT Group Financial Results

##### Consolidated Revenue

Total consolidated revenue decreased by 3.1% to HRK 8,517 million in 2009 from 8,791 million in 2008 driven primarily by lower revenues from fixed and mobile telephony, while internet services revenue has grown by 27.7%.

##### Consolidated Operating Revenue

###### Income from usage of own products, merchandise and services

Income from usage of own work capitalized increased by 6.7% to HRK 169 million in 2009 (2008: HRK 159 million). This is a result of higher capitalization of provisioning services for new customers than in 2008.

###### Other operating income

Other operating income decreased by 23.4% to HRK 213 million in 2009 (2008: HRK 278 million). This is a result of lower realization of fixed assets sale than in 2008 due to adverse prices on real estate market.

##### Consolidated Operating Expenses

Total consolidated operating expenses before depreciation and amortization decreased by 1.1% to HRK 5,204 million, (2008: HRK 5,264 million). This decrease is visible in merchandise, material and energy expenses, services expenses and other expenses which were partially offset by a higher write down of current assets and employee benefits expenses.

###### Material expenses

The material expenses decreased by 5.7% to HRK 2,320 million (2008: HRK 2,459 million). This was due to decrease in merchandise, material and energy expenses and decrease in services expenses. Merchandise cost decrease of 4.4% to HRK 1,054 million (2008: HRK 1,102 million) is a result of reduced sales of mobile merchandise through both direct and indirect channels. Services expenses decreased by 6.7% to HRK 1,266 million (2008: HRK 1,357 million) due to lower domestic interconnection services and international telecommunications services which are related to net revenue decrease in fixed, mobile and wholesale services.

###### Employee benefits expenses

Total employee benefits expenses, before exceptional items related to redundancy costs, decreased by 0.8% to HRK 1,150 million from HRK 1,158 million in 2008. This is the result of T-HT's ongoing headcount reduction programme.

In 2009 provisions of HRK 152 million were made for redundancy versus HRK 45 million in 2008. Consequently, employee benefits expenses after exceptional items increased by 8.2% to HRK 1,302 million (2008: HRK 1,203 million). As at 31 December 2009, the Group had 6,044 full time employees compared to 6,419 full time employees at 31 December 2008.

###### Other expenses

Other expenses decreased by 2.4% to HRK 1,472 million (2008: HRK 1,508 million) mainly due to decrease in advertising expenses, rental and leasing expenses and temporary work and personnel leasing expenses.

###### Write-down of assets

The write-down of current assets increased by 16.6% to HRK 110 million (2008: HRK 94 million) as a result of lower collection of receivables due to recession.

**Depreciation and amortization**

Depreciation and amortization increased by 2.9% from HRK million 1,362 in 2008 to HRK 1,402 million in 2009. This is mainly a result of higher amortization costs of intangible assets in mobile business, which is related to replacement of packet core network software.

**T-HT Group Profitability**

**EBITDA**

EBITDA (before exceptional items) decreased by 3.8% to HRK 3,859 million (2008: HRK 4,009 million) as a result of net revenue and other operating income decrease.

**Exceptional items**

There were HRK 163 million of exceptional items, out of which HRK 152 million is related to provisions for redundancy costs and HRK 11 million related to reorganizational cost as a result of merger of "T-Mobile Hrvatska" and "Hrvatske Telekomunikacije d.d." in one company effected as at 01. 01. 2010.

In 2008, there was HRK 45 million of exceptional items all related to redundancy costs.

**Operating profit (EBIT)**

Consolidated operating profit decreased by 11.9% to HRK 2,294 million (2008: HRK 2,602 million). This was mainly due to decrease in revenue and increase in redundancy and depreciation costs.

**Net profit**

Consolidated net profit decreased by 12.4% to HRK 2,023 million in 2009, from HRK 2,310 million in 2008. This decrease, compared with operating profit decrease, is additionally affected with lower interest income by 15.5% and higher financial expenses by 17.6%

**Financial Position**

**Balance Sheet**

The total value of assets decreased by 4.8% to HRK 14,472 million (2008: HRK 15,205 million), mainly as a result of decrease in current assets (cash and cash equivalents and time deposits) related to the dividend payment.

Total non-current assets increased from HRK 7,977 million at 31 December 2008 to HRK 8,175 million at 31 December 2009 due to increased investment in broadband access and the core infrastructure.

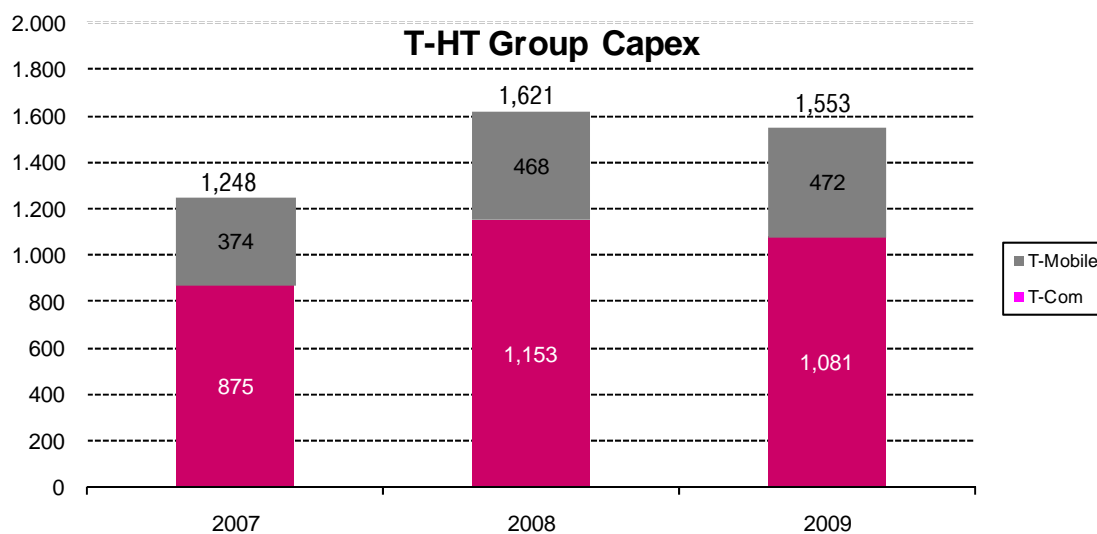
The decrease in total current assets from HRK 7,227 million at 31 December 2008 to HRK 6,297 million at 31 December 2009, is mostly related to the dividend payment and increased investment activities.

Total issued capital and reserves decreased to HRK 12,012 million (2008: HRK 12,440 million), mainly because of the lower retained earnings than in 2008 due to higher dividend paid in amount of HRK 2,421 million vs. realized profit for 2009 financial year in amount of HRK 2,023 million.

**Cash Flow**

Cash flow from operating activities is T-HT's principal source of funds, enabling the Group to finance capital investments and dividend distributions. Compared to 2008, net cash flow from operating activities decreased by 11.7% as a result of change in billing method for subscription fee (fixed voice) on December bills (one-time net effect is HRK -88 million) and decrease in days payable outstanding and lower EBITDA. Net cash flow from investing activities decreased by 210.4% as a result of combined effects in 2009 and 2008 financial year, purchase of treasury bills in amount of HRK 818 million in 2009 and change in maturity structure of time deposits, from deposits over 3 months to deposits less than 3 months in 2008. Net cash flow from financing is a result of dividend payments and is higher than in 2008 by 1.0%.

## CAPEX



Capital expenditure decreased by 4.2% in 2009 to HRK 1,553 million (2008: HRK 1,621 million).

T-Com's capital expenditure decreased by 6.3% to HRK 1,081 million (2008: HRK 1,153 million), mainly due to lower investment in broadband access network and fleet.

T-Mobile's capital expenditure increased slightly by 0.9% to HRK 472 million (2008: HRK 468 million), mainly because of further investment in the development of the 2G and 3G network and platforms.

## 3.2. Financial Results of the T-Com Segment

### Revenue

Total revenue from T-Com decreased by 2.8% to HRK 5,044 million (2008: HRK 5,191 million), primarily due to a decrease in fixed-telephony traffic caused by fixed-to-mobile substitution and increased competition.

The decrease was partially balanced by a significant increase in revenues from Internet services, particularly ADSL and IPTV.

#### Fixed-telephony revenue

Fixed-telephony revenues decreased by 10.3% to HRK 2,506 million (2008: HRK 2,793 million), representing 49.7% of T-Com's revenues. One of the effects of the decrease is the application of IFRIC 13 that decreased Fixed telephony revenue in 2009 for HRK 30.0 million compared to only HRK 5.1 million in 2008 (if the IFRIC effect will not be taken into consideration the decrease in 2009 compared to 2008 would be 9.4%).

The decrease in revenue from fixed telephony is primarily due to a decrease in fixed-telephony traffic caused by fixed-to-mobile substitution and increased competition resulting in customer migration to other operators (CPS, ULL). Migration to other operators through ULL continued in 2009; the number of CPS customers remained stable during 2009 at the level of 227,879 but number portability (NP) increased by 75,523 users. The combination of these factors produced 7.9% lower national traffic, 10.3% lower international traffic and 14.8% lower fixed-to-mobile traffic in 2009.

### **Revenue from Internet services**

Revenue from Internet services increased by 27.7% to HRK 1,149 million in 2009 (22.8% of total T-Com revenue) from HRK 899 million in previous year. This is a result of shift from narrowband to broadband services and growth of new internet services.

Due to change of accounting treatment of Customer Loyalty Program revenue (assigned reward points shall not be recognized until points are exchanged for rewards), substantial decrease in revenue occurred due to IFRIC 13 amounting to HRK 12.9 million in 2009. Such development finally resulted with an up-growth in amount of HRK 11.5 million in IFRIC 13 in comparison to previous year.

Iskon's contribution to revenue after consolidation amounted to HRK 123 million in the period Jan-Dec 2009 and HRK 93 million in 2008.

ADSL customer base reached 554,995 customers in 2009 representing an increase of 17.4% from 472,654 in 2008. ARPU in ADSL increased by 3.8% compared to the same period in previous year, because of the strong promotions offered by T-Com in order to increase broadband penetration and retain the largest market share in Croatia.

IPTV revenue is representing a substantial increase by HRK 71.5 million in comparison to previous year as a consequence of different promotional campaigns in order to enlarge customer's acquisition and retention.

### **Revenue from Data services**

Revenue from data services represents 3.6% of the total T-Com's revenues. It decreased in 2009 by 8.0% to HRK 183 million (2008: HRK 199 million) due to the migration of our customers from traditional data services to lower priced, IP-based services. As a part of its long-term data strategy, T-Com has focused on migrating customers from traditional data to new services such as Metro Ethernet and IP VPN, supported by promotional efforts.

### **Revenue from Wholesale services**

Wholesale business segment represents 20.8% of total T-Com's revenue. Wholesale revenue decreased by 9.2% to HRK 1,049 million in 2009 from HRK 1,155 million in 2008. Decrease in dial up traffic occurred due to expected shift to broadband services. Further, revenues from interconnection leased lines services are lower than last year as a result of switching to new commercial models (interconnection on T-Com side). Decrease of international traffic to mobile destinations and price drop of international data services resulted in lower revenues. National and international hubbing volume decreased and negatively affected revenues. Termination and origination revenues decreased due to lower IC prices imposed by HAKOM (regulatory agency).

On the other hand, positive trends are driven by higher revenue from providing infrastructure services for other fixed operators. Furthermore, international IP access generated higher revenue than last year due to increase of sold capacity.

## **Operating Expenses**

Operating expenses before depreciation and amortization decreased by 0.2% to HRK 3,509 million (2008: HRK 3,516 million), primarily because of decrease in the services expenses and other expenses.

The cost of merchandise, material and energy slightly decreased to HRK 507 million (2008: HRK 508 million) mainly due to higher cost of modems and terminal equipment for services such as ADSL and IPTV and leveled out with lower material expenses.

Services expenses decreased by 8.9% to HRK 1,015 million (2008: HRK 1,114 million) primarily because of decrease in domestic and international telecommunications services costs as a result of lower revenue from fixed telephony and wholesale services.

Total employee benefits expenses (before exceptional items of HRK 148 million in 2009 and HRK 45 million in 2008) decreased by 1.3% to HRK 920 million (2008: HRK 931 million), mainly as a result of the continuing headcount reduction programme.

Other expenses decreased by 1.6% to HRK 876 million (2008: HRK 890 million). Main decrease occurs in rental and leasing expenses and advertising expenses.

The write down of assets increased from HRK 28 million in 2008 to HRK 43 million in 2009 as a result of lower collection of receivables due to recession.

Depreciation and amortization increased by 1.7% to HRK 908 million (2008: HRK 893 million).

## T-Com Profitability

### ***EBITDA***

In 2009, EBITDA (before exceptional items of HRK 159 million in 2009 and HRK 45 million in 2008) decreased by 2.5% to HRK 2,019 million (2008: HRK 2,071 million), primarily because of lower revenue and other operating income. The EBITDA (before exceptional items) margin was 40.0% in 2009 (2008: 39.9%).

### ***EBIT***

EBIT decreased by 16.0% to HRK 952 million (2008: HRK 1,133 million) as a result of EBITDA development and higher depreciation cost.

## CAPEX

Capital expenditure decreased by 6.3% to HRK 1,081 million (2008: HRK 1,153 million), mainly due to lower investment in broadband access network and fleet. The capex to sales ratio decreased by 0.8 percentage points to 21.4% of revenues (2008: 22.2 % of revenues).

## 3.3. Financial Results of the T-Mobile Segment

### Revenue

T-Mobile's total revenue decreased by 5.0% in comparison to the year 2008. Revenue decrease was a result of lower prepaid (-13.9%) and postpaid (-5.0%) revenues, that were partially compensated with increase of other mobile revenues (+27.9%). Prepaid and postpaid revenue decrease is resulting from economic recession, increased market penetration and negative effects of increased government taxation during the last two quarters in 2009.

### Operating Expenses

In 2009 T-Mobile had total operating expenses before depreciation and amortization of HRK 2,481 million (2008: HRK 2,635 million), representing a decrease of 5.8%. This drop in expenses mainly resulted from direct costs decrease: decrease of costs of mobile merchandise and commissions related to SAC/SRC, as well as decrease of interconnection cost.

Direct costs decrease is, as well as in case of revenues, connected with economic situation in the country.

Material expenses decreased by 9.1% to HRK 1,469 million in 2009 from HRK 1,615 million in previous year. This decrease was mainly a result of reduced sales of mobile merchandise through both direct and indirect channels. Interconnection costs were lower due to new termination price that is in use from April 2009.

Total employee benefits expenses showed slightly increase of 2.9% to HRK 234 million in 2009 from HRK 228 million in 2008.



Other expenses are on the same level as is in previous year.

In 2009, mobile telephony depreciation and amortization increased by 5.2% to HRK 494 million from HRK 469 million in 2008. This is mainly a result of higher amortization costs of intangible assets, which is related to replacement of packet core network software. Replacement was needed due to the fact that old equipment will no longer be developed, sold or maintained by its supplier.

### **T-Mobile Profitability**

#### **EBITDA**

In 2009, EBITDA (before exceptional items of HRK 4 million in 2009) for mobile telephony decreased by 5.1% (to HRK 1,840 million from HRK 1,938 in 2008). This is result of 5.0% lower revenues compensated with the cost reduction (-5.8%).

Main reasons for EBITDA decrease compared to previous year were negative effects of governmental measures (VAT rate increase and specific contribution fee on mobile services of 6%).

The EBITDA (before exceptional items) margin is 43.9% and on the same level as previous year.

#### **EBIT**

In comparison with previous year EBIT for mobile telephony decreased by 8.7% to HRK 1,341 million from HRK 1,469 million. This decrease was a result of the above mentioned reasons.

### **CAPEX**

Capital expenditure slightly increased by 0.9% to HRK 472 million (2008: HRK 468 million). It was mainly invested in further development of the 2G and 3G network and platforms. Consequently, the Capex to revenue ratio rose by 0.7 percentage points to 11.3% (2008: 10.6% of revenues).

## 4. CORPORATE SOCIAL RESPONSIBILITY

As a strong and successful company, T-HT Group is fully aware of its responsibilities in Croatian society and aspires to set a high standard of corporate social responsibility (CSR). As a result, CSR is an integral part of T-HT Group operations and it works to improve the wider Croatian society through a number of important activities.

Being a communications company, it is natural that social projects in which the Group is involved have an orientation towards humanitarian issues, education and projects in which modern technologies can make a significant impact.

Most of our projects are long-term schemes, which ensures their better efficiency and many of them are both internal and external in nature, which means that T-HT's employees directly engage in providing support to the community.

Important aspects of our work in corporate social responsibility include: cooperation with educational, cultural and scientific institutions as well as with non-governmental organizations: the provision of T-HT resources for socially useful purposes; sponsorship of worthy projects and the implementation of a strong environmental protection strategy.

### 4.1. Donations and Sponsorships

#### The Group

In 2009, the five-year partnership between T-HT and UNICEF in Croatia was strengthened with the project "The First Three Matter Even More", by expanding the previous year's project of encouraging responsible parenting to a group of parents whose children have developmental disabilities. In order to encourage and increase regular financial support for the project, T-HT created and sent out donation slips that made it possible for users of its services to contribute directly to this worthy UNICEF project. This partnership has also raised awareness about another crucial issue – the foster care of children.

Since 2001, T-HT has supported a large number of humanitarian initiatives with the provision of free 060 numbers to help them achieve their aims.

In the last year, the 060 number was used in a number of socially important campaigns. The aims of these projects included: support for patients suffering from a rare and severe skin disease (Association Debra); providing patients of pediatric hospital in Osijek with better hospital treatment (Foundation Milo moje); encouraging the donation of blood stem cells (Ana Rukavina Foundation); and providing support for fostered or abandoned children to receive a university education (Step into Life - Rotary Club Zagreb Kaptol).

In all these initiatives T-HT waives its income. Thus the full amount raised by calling the donation number went to humanitarian purposes.

The project "Together We Are Stronger" was continued for the fourth successive year. It is unique because T-HT's employees have the key role in the project, identifying needs and proposing projects based upon their own experiences and the environment around them.

Out of 178 applications received from all over Croatia, 25 projects were selected in 2009 and awarded funds totalling more than HRK 1.1 million. Support was provided to projects including: Brave Phone – a Hotline for Abused and Neglected Children; the Association of Parents of Children with Special Needs ("Mi" from Požega); the Association of Disabled Persons ("Bubamara" from Vinkovci). In addition, for the Health Center Zagreb East, T-HT purchased equipment for vehicles as well as lifts for wheelchair-bound and mobility-impaired people. T-HT also provided support for creative and therapeutic work with children at Studio Tanay in Zagreb.

For the second successive year, T-HT chose to donate significant funds to good causes instead of purchasing holiday gifts for business partners and customers. In 2009, holiday donations of the T-HT Group went to emergency medical treatment centres.

Our support was based on the premise that efficient communication is often essential when it comes to protection and rescue of human lives. The Ambulance Service was selected as a recipient because of its general importance for society as a whole and for individuals as well, regardless of age, gender, residence or social status.

Following the advice of the healthcare profession, equipment worth more than one million kunas was donated to University Hospital „Sestre milosrdnice“ in Zagreb, the Emergency Medical Treatment Institution in Rijeka and to health centres in Vukovar, Šibenik, Dubrovnik and Slavonski Brod.

Within continuing support to the emergency services, which was initiated by T-Mobile in 2006, so far, nearly ten million kunas have been donated for medical devices, equipment, vehicles and other needed supplies to emergency medical treatment institutions and health centres all over Croatia.

In October 2009, T-HT organized its annual conference for the second time, entitled “Growing through Knowledge”, featuring world-renowned speakers whose books and ideas have inspired audiences throughout the world. The Nobel Prize winner Muhammed Yunus and behavioural economist Dan Ariely delivered inspiring lectures and addressed the issue of the wealth of human potential, the need to combat poverty and the irrationalities of everyday life. This conference, which was covered extensively in the media, was attended by leading business people and politicians, as well as representatives from T-HT’s business partners and many of the best students from faculties and other educational institutions across Croatia.

Apart from larger initiatives or long-standing partnerships, T-HT also supported a number of smaller projects that benefited different segments of Croatian society. It continued its support for the work of the Volunteer Center of Zagreb, both financially and through the direct participation of its employees.

Last year, the Group expanded the already existing project of T-Mobile and announced a competition for “T-HT Scholarship”. Among excellent candidates from the Faculty of Electrical Engineering and Computing in Zagreb, the Faculty of Electrical and Mechanical Engineering and Naval Architecture in Split and the Faculty of Electrical Engineering in Osijek, 11 seniors were selected who not only fulfil their faculty obligations and have excellent results in their studies, but are also interested in a number of other things and are actively engaged in sports or cultural activities, associations, i.e. show maturity, versatility and motivation for achievements and broad personal success.

For the second year running, T-HT partnered with Microsoft to support the “Imagine Cup 2009”, which gathered student teams from all over the world to envisage technological solutions for global issues such as famine and poverty, providing primary education, the promotion of gender equality, maternal health etc.

T-HT again supported the biggest technological conference in Croatia, WinDays 2009, as well as the MIPRO conference, the “Vidi Web Top 100” competition and other events related to the telecommunications sector and its communities. In addition, T-HT provided funding or infrastructure and equipment for a number of national and international forums and conferences on a variety of subjects.

In December 2009 HT was granted membership in the CEERIUS Sustainability Index in the season 2010. The CEERIUS (CEE Responsible Investment Universe) is the sustainability index of the Vienna Stock Exchange for the CEE region, composed of the leading companies in reference to social and ecological quality, as well as economic performance.

The third „T-HTnagrada@msu.hr“ competition also marked the third year of cooperation between T-HT and the Museum of Contemporary Art. T-HT’s collection – works of art featured in this established and well received competition – will be exhibited in the Museum, which was opened in a new representative building in December 2009. Apart from financial support, T-HT will continue to provide support to the new museum with its telecommunications services.

In 2009 T-HT continued its longstanding tradition of sponsoring Croatian National Theatres in Osijek, Split, Rijeka and Varaždin, as well as the City Drama Theatre Gavella in Zagreb.

Given the huge influence on society of sport, the Group continued, as main sponsor, its longstanding cooperation with the Croatian Olympic Committee in, thus aligning the values of T-HT with the noblest traditions of the Olympic Games, namely fair competition and the encouragement of young people to work hard in order to achieve their goals and become valuable community members.

### **T-Com**

In 2009, T-Com supported the development of sporting culture through the project "I Love Football", ensuring a more favourable environment for the development of football as the most popular team sport in Croatia. Within the project, T-Com sponsors the Croatian national football team, in addition to its extensive multi-year sponsorship of the Association of the First Croatian Football League.

For the fifth successive year, T-Com continued its association with the "KulTurst" project, in order to popularize and assist cultural events in Croatia, notably major film and theatre events. The list of events sponsored last year includes: Pula Film Festival, Split Summer, Vukovar Film Festival, Ulysses Theatre, ZagrebDox and Libertas Film Festival.

For the second year running, T-Com's Internet portal tportal.hr awarded the most lucrative literary prize in Croatia, worth HRK 100,000. More than 50 entries were received for the "roman@tportal.hr" literary competition, with Drago Glamuzina being awarded the main prize for his novel "Three", judged the best Croatian novel in 2008.

T-Com continued the project "Net in School", launched in 2001, providing children's homes with free access to MAXdsl high-speed Internet, personal computers for Internet access and free viewing of TV programs via MAXtv. The donation extended to 17 children's homes and their regional branches throughout the country. MAXtv and MAXdsl have now been donated to children's homes at 29 locations over the past two years.

### **T-Mobile**

As a company committed to care for the environment and conscientious waste management, T-Mobile was the first operator in Croatia to launch the collection and ecologically safe disposal of old mobile phones and batteries. Customer response to this initiative has been excellent, evidenced by the fact that more than 80,000 old mobile phones have been collected since 2004.

In 2007, T-Mobile became a patron to the Zagreb elementary school "Nad lipom" and supported the school in its candidacy to become an international eco-school. International eco-schools present special programs to educate children and make them aware of the importance of environment protection. This status, awarded by Eco-Schools International Coordination, is renewed each year and T-Mobile was delighted to continue its support in 2009. In addition, T-Mobile helped with projects relating to waste disposal and landscaping the area surrounding the school.

One of the biggest highlights of 2009 was T-Mobile's INmusic festival, considered to be the most successful to date. It will be remembered for excellent performances of Kraftwerk, Lily Allen, Moby, Franz Ferdinand, and many other performers.

The third successive Minival festival of new bands was held under the sponsorship of T-Mobile. The winning band was given the opportunity to perform at T-Mobile INmusic festival.

The year was also marked by renewed cooperation with one of the biggest Croatian musicians, Zlatan Stipišić – Gibonni.

In 2009, T-Mobile actively supported sailing. In addition to its sponsorship of prestigious regattas, T-Mobile is also personal sponsor of the yachtsman Ivan Kljaković Gašpić, who won the gold medal at the European Championship in the Finn class in Bulgaria and became the European champion.

## 4.2. Ecology

For several years, environmental protection has been an important consideration in major business processes. During 2009, a project to introduce a joint ISO 14001 environmental management certificate was launched by the Deutsche Telekom Group in order to increase transparency, align policies and develop a single approach to customers, citizens and assessment agencies, across DT and related companies including T-HT.

T-HT is a signatory to the United Nations Global Compact, which advocates the principles of ethic business, including environment protection. In 2009, the first Communication on Progress was published. In addition, T-HT has been a long-time member of the European Telecommunications Network Operators' Association (ETNO) a signatory to the Charter on Environmental Protection, and also a signatory to the Sustainable Development Charter, by which T-HT has committed itself to environment protection management according to international guidelines and best practices.

In its environmental efforts, the Company strives to meet the expectations of its customers. It uses innovative solutions such as WebBill, e-bill, e-vouchers etc. to reduce the impact of its services on the environment. In addition, facilities have been provided in all T-Centres for the collection and safe disposal of old mobile phones and batteries.

Special attention is paid to resource conservation, climate protection and reducing the amount of harmful emissions produced by Group activities.

T-HT's fleet is constantly renewed by the purchase of new vehicles with better CO<sub>2</sub>/km emission factors. In addition, gas-driven vehicles are being used more extensively, as gas is considered the most environmentally friendly fuel.

Older-generation air conditioning systems are being replaced by new and more efficient ones that do not use substances harmful to the environment. A large number of boiler rooms use ecologically friendly natural gas for central heating, while bio diesel-driven mobile power supply units are used for emergency power supplies. Use of bio diesel is preferred in protected areas such as national parks. T-Mobile uses solar and wind energy for electric power supply of plants on remote mobile network locations and encourages shared use of infrastructure (e.g. antenna poles) with other operators in order to reduce their impact on the environment. The aim of waste management in T-HT is in the first place to avoid or at least reduce generation of waste.

T-HT's involvement in environmental protection and ecology was expanded in 2009, after collaboration with the Green Communication project in 2008 to reforest twenty hectares of land in each of four regions in Croatia. Our commitment continued with the project "Preservation of Habitats of Endangered Species", in which underwood was removed from nesting areas of bird corncrake in the Odra Plain, pastures along the river Sava were improved, Trstenik moor was cleaned up and endemic species of the Adriatic confluence were monitored.

## 5. APPENDIX

### 5.1. Financial Statements

#### Consolidated income statement

in HRK million (IFRS HT accounting policies)	Jan-Dec 2009	Jan-Dec 2008	% of change A09/A08
Fixed telephony	2,505	2,791	-10.2%
Mobile telephony	3,969	4,176	-5.0%
Wholesale services	696	720	-3.3%
Internet services	1,145	897	27.7%
Data services	183	199	-8.0%
Miscellaneous	19	9	119.2%
<b>Revenue</b>	<b>8,517</b>	<b>8,791</b>	<b>-3.1%</b>
Income from usage of own products, merchandise and services	169	159	6.7%
Other operating income	213	278	-23.4%
<b>Total operating revenue</b>	<b>8,899</b>	<b>9,228</b>	<b>-3.6%</b>
<b>Operating expenses</b>	<b>5,204</b>	<b>5,264</b>	<b>-1.1%</b>
Material expenses	2,320	2,459	-5.7%
Employee benefits expenses	1,302	1,203	8.2%
Other expenses	1,472	1,508	-2.4%
Write down of assets	110	94	16.6%
<b>EBITDA</b>	<b>3,695</b>	<b>3,964</b>	<b>-6.8%</b>
Depreciation and amortization	1,402	1,362	2.9%
<b>EBIT</b>	<b>2,294</b>	<b>2,602</b>	<b>-11.9%</b>
Financial income	301	356	-15.5%
Income from investment in joint ventures	12	18	-33.4%
Financial expenses	41	34	17.6%
<b>Profit before taxes</b>	<b>2,566</b>	<b>2,942</b>	<b>-12.8%</b>
Taxation	542	632	-14.2%
<b>Net profit</b>	<b>2,024</b>	<b>2,310</b>	<b>-12.4%</b>
Minority interest	0	0	68.1%
<b>Net profit after minority interest</b>	<b>2,023</b>	<b>2,310</b>	<b>-12.4%</b>
Exceptional items	163	45	264.7%
<b>EBITDA before exceptional items</b>	<b>3,859</b>	<b>4,009</b>	<b>-3.8%</b>

**Consolidated balance sheet**

in HRK million (IFRS HT accounting policies)	At 31 Dec 2009	At 31 Dec 2008	<i>% of change A09/A08</i>
Intangible assets	1,099	1,049	4.7%
Property, plant and equipment	6,507	6,428	1.2%
Non-current financial assets	490	404	21.2%
Receivables	33	36	-8.8%
Deferred tax asset	46	61	-23.9%
<b>Total non-current assets</b>	<b>8,175</b>	<b>7,977</b>	<b>2.5%</b>
Inventories	255	314	-18.8%
Receivables	1,505	1,320	14.0%
Current financial assets	259	266	-2.5%
Cash and cash equivalents	4,195	5,223	-19.7%
Prepayments and accrued income	84	105	-20.2%
<b>Total current assets</b>	<b>6,297</b>	<b>7,227</b>	<b>-12.9%</b>
<b>TOTAL ASSETS</b>	<b>14,472</b>	<b>15,205</b>	<b>-4.8%</b>
Subscribed share capital	8,189	8,189	0.0%
Reserves	409	409	0.0%
Revaluation reserves	-4	-1	161.1%
Retained earnings	1,393	1,534	-9.2%
Net profit for the period	2,023	2,310	-12.4%
Minority interest	1	1	43.6%
<b>Total issued capital and reserves</b>	<b>12,012</b>	<b>12,440</b>	<b>-3.4%</b>
Provisions	428	415	3.1%
Non-current liabilities	128	150	-14.3%
<b>Total non-current liabilities</b>	<b>556</b>	<b>565</b>	<b>-1.5%</b>
Current liabilities	1,643	1,857	-11.5%
Accrued expenses and deferred income	261	343	-23.9%
<b>Total current liabilities</b>	<b>1,904</b>	<b>2,200</b>	<b>-13.5%</b>
Total liabilities	2,460	2,765	-11.0%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,472</b>	<b>15,205</b>	<b>-4.8%</b>

## Consolidated cash flow statement

in HRK million (IFRS HT accounting policies)	Jan-Dec 2009	Jan-Dec 2008	% of change A09/A08
Profit before tax	2,566	2,942	-12.8%
Depreciation and amortization	1,402	1,362	2.9%
Increase of current liabilities	0	98	-100.0%
Decrease of inventories	59	0	-
<b>Total increase of cash flow from operating activities</b>	<b>4,026</b>	<b>4,401</b>	<b>-8.5%</b>
Decrease of current liabilities	-149	0	-
Increase of current receivables	-205	-151	35.3%
Increase of inventories	0	-111	-100.0%
Other cash flow decreases	-935	-1,035	-9.7%
<b>Total decrease of cash flow from operating activities</b>	<b>-1,288</b>	<b>-1,298</b>	<b>-0.7%</b>
<b>Net cash inflow/outflow from operating activities</b>	<b>2,738</b>	<b>3,103</b>	<b>-11.7%</b>
Proceeds from sale of non-current assets	25	39	-37.1%
Proceeds from sale of non-current financial assets	2	2,390	-99.9%
Interest received	278	381	-26.8%
Dividend received	4	0	-
Other cash inflows from investing activities	11	0	-
<b>Total increase of cash flow from investing activities</b>	<b>320</b>	<b>2,810</b>	<b>-88.6%</b>
Purchase of non-current assets	-1,553	-1,624	-4.4%
Purchase of non-current financial assets	-75	0	-
<b>Total decrease of cash flow from investing activities</b>	<b>-1,628</b>	<b>-1,624</b>	<b>0.2%</b>
<b>Net cash inflow/outflow from investing activities</b>	<b>-1,309</b>	<b>1,185</b>	<b>-210.4%</b>
<b>Total increase of cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-</b>
Repayment of loans and bonds	0	-1	-
Dividends paid	-2,456	-2,421	1.5%
Repayment of finance lease	-2	-11	-80.8%
Other cash outflows from financing activities	0	0	-
<b>Total decrease in cash flow from financing activities</b>	<b>-2,458</b>	<b>-2,433</b>	<b>1.0%</b>
<b>Net cash inflow/outflow from financing activities</b>	<b>-2,458</b>	<b>-2,433</b>	<b>1.0%</b>
Total increase of cash flow	2,738	4,288	-36.1%
Total decrease of cash flow	-3,767	-2,433	54.8%
Cash and cash equivalents at the beginning of period	5,223	3,367	55.1%
Net cash (outflow) / inflow	-1,028	1,855	-155.4%
<b>Cash and cash equivalents at the end of period</b>	<b>4,195</b>	<b>5,222</b>	<b>-19.7%</b>



## T-Com Segment

## Income statement

in HRK million	Jan-Dec 2009	Jan-Dec 2008	<i>% of change A09/A08</i>
Fixed telephony	2,506	2,793	-10.3%
Wholesale services	1,049	1,155	-9.2%
Internet services	1,149	899	27.7%
Data services	183	199	-8.0%
Miscellaneous	158	145	8.8%
<b>Revenue</b>	<b>5,044</b>	<b>5,191</b>	<b>-2.8%</b>
Other operating income	177	214	-17.2%
Income from usage of own products, merchandise and services	147	136	8.1%
Operating expenses	3,509	3,516	-0.2%
<b>EBITDA before exceptional items</b>	<b>2,019</b>	<b>2,071</b>	<b>-2.5%</b>
<i>Exceptional items</i>	159	45	255.3%
<b>EBITDA</b>	<b>1,860</b>	<b>2,026</b>	<b>-8.2%</b>
Depreciation and amortization	908	893	1.7%
<b>EBIT</b>	<b>952</b>	<b>1,133</b>	<b>-16.0%</b>

## T-Mobile Segment

## Income statement

in HRK million	Jan-Dec 2009	Jan-Dec 2008	<i>% of change A09/A08</i>
Revenue from Postpaid services	2,470	2,599	-5.0%
Revenue from Prepaid services	1,232	1,430	-13.9%
Other mobile Revenue	488	381	27.9%
<b>Revenue</b>	<b>4,189</b>	<b>4,411</b>	<b>-5.0%</b>
Other operating income	127	162	-21.5%
Operating expenses	2,481	2,635	-5.8%
<b>EBITDA before exceptional items</b>	<b>1,840</b>	<b>1,938</b>	<b>-5.1%</b>
<i>Exceptional items</i>	4	0	-
<b>EBITDA</b>	<b>1,835</b>	<b>1,938</b>	<b>-5.3%</b>
Depreciation and amortization	494	469	5.2%
<b>EBIT</b>	<b>1,341</b>	<b>1,469</b>	<b>-8.7%</b>