

HT - Hrvatske telekomunikacije d.d.

Special purpose statement of financial position - opening balance

1 January 2010

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General information

Responsibility for the statement of financial position

On 29 October 2009 a Merger Agreement was signed by HT – Hrvatske telekomunikacije d.d. (“HT d.d.” or the Company) and T-Mobile Hrvatska d.o.o. (“T-Mobile”) and upon the decision of the Assembly of the transferor company by which the merger was approved, the merger was entered into the court register of the Commercial Court in Zagreb on 31 December 2009.

HT d.d. became the universal legal successor of T-Mobile and thereby entered into all legal relationships of T-Mobile.

This special purpose statement of financial position is prepared to present accounting treatment of legal merge in accordance with accounting policy set in Note 1 to the special purpose statement of financial position - opening balance and to be presented to the General Assembly as integral part of Annual report upon its adoption by the Supervisory Board.

The Board is responsible for ensuring that a special purpose statement of financial position - opening balance is prepared in accordance with regulations valid for the preparation of the last annual financial statements, using the same methods and in the same format as for the last annual financial statements.

The Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the special purpose statement of financial position - opening balance.

In preparing special purpose statement of financial position - opening balance, the responsibilities of the Board include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgements and estimates are reasonable and prudent;
- Applicable accounting standards are followed and
- The special purpose statement of financial position - opening balance is prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The accompanying special purpose statement of financial position - opening balance was approved for issuance by the Management Board on 8 February 2010.

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

8 February 2010

On behalf of the Company,

Ivica Mudrinić
President of the Management Board

Independent Auditor's Report

To the Board and Supervisory board of HT – Hrvatske telekomunikacije d.d.:

We have audited the accompanying special purpose statement of financial position - opening balance ("the opening balance") of HT – Hrvatske telekomunikacije d.d. ("HT d.d." or "T-HT") which comprises a statement of financial position as at 1 January 2010 and a related explanatory note. The opening balance has been prepared by management using the basis of accounting described in Note 1.

Management Responsibility for the Opening balance

Management is responsible for the preparation and fair presentation of this opening balance in accordance with the basis of accounting described in Note 1 to this special purpose statement of financial position; this includes determining that such basis for preparation of the opening balance is an acceptable basis for the preparation of the opening balance in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the opening balance that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the opening balance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the opening balance, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the opening balance in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the opening balance. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the opening balance is prepared in all material respects in accordance with the basis of accounting as described in Note 1 to this special purpose statement of financial position.

Independent auditor's Report (continued)

Emphasis of Matter

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

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

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

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

Dominant position abuse

There have been several complaints made by the competitors of T-HT and T-Mobile to the Competition Protection Agency and the Croatian Telecommunications Agency in regard to T-HT's and T-Mobile's alleged abuse of dominant position. Several proceedings are in progress.

T-HT is vigorously defending these matters. There is no history of significant settlements in Croatia under either the Competition Law or imposed by the misdemeanour courts. Due to a lack of relevant practice and due to the fact that the proceedings are still in progress, T-HT is not able to positively determine the likelihood of the possible outcome of these cases, however management believes that any settlement, if ultimately required on final resolution, will be significantly less than the maximum penalties as prescribed by the Competition Act which amount up to 10% of the annual turnover of the undertaking in the year preceding the year in which the offence was committed.

Consumer Protection Act

T-HT is involved in legal proceedings for an alleged breach of the Consumer Protection Act in regard to the method of charging voice services and in regards to monthly access charges. The claimants are residential customers of T-HT as well as the Consumer Protection Association. T-HT has filed a counteraction and proceedings are in progress.

Independent Auditor's Report (continued)

Emphasis of Matter (continued)

Consumer Protection Act (continued)

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

No adjustments have been made to this statement of financial position - opening balance relating to any of these matters.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the special purpose statement of financial position - opening balance, which describes the basis of accounting. This special purpose statement of financial position - opening balance and our report thereon is prepared to enable the Board of HT to present accounting treatment of legal merge in accordance with accounting policy set in Note 1 to the special purpose statement of financial position - opening balance and to be presented to the General Assembly as integral part of Annual report upon its adoption by the Supervisory Board. It is only intended for this purpose and therefore it is not suitable for other use and should not be relied upon for any other purpose.

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

Slaven Đuroković

9 February 2010

Statement of financial position
Opening balance as at 1 January 2010

Opening balance
1 January
2010
HRK millions

ASSETS

Non-current assets

Intangible assets	1,006
Property, plant and equipment	6,425
Investment in subsidiaries	102
Investment in associate	2
Investment in joint venture	335
Available-for-sale investments	115
Non-current loans given to subsidiary	227
Non-current receivables	32
Deferred tax asset	46
Total non-current assets	<u>8,290</u>

Current assets

Inventories	254
Trade and other receivables	1,448
Prepayments and accrued income	71
Income tax prepayments	32
Available-for-sale investments	256
Time deposits	3
Cash and cash equivalents	4,175
Total current assets	<u>6,239</u>
TOTAL ASSETS	<u>14,529</u>

Statement of financial position (continued)
 Opening balance as at 1 January 2010

Opening balance
 1 January
 2010
 HRK millions

EQUITY AND LIABILITIES

Issued capital and reserves

Issued capital	8,189
Legal reserves	409
Retained earnings	30
Unallocated profit	896
Retained earnings and unallocated profit acquired through merger of T-Mobile	2,622
Other	(26)
Total issued capital and reserves	12,120

Non-current liabilities

Provisions for legal cases	116
Provisions for redundancy	113
Employee benefit obligations	191
Deferred income	103
Other long-term liabilities	26
Total non-current liabilities	549

Current liabilities

Trade and other payables	1,417
Provisions for redundancy	7
Other accruals	184
Deferred income	252
Total current liabilities	1,860

Total liabilities

TOTAL EQUITY AND LIABILITIES

2,409
14,529

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

Ivica Mudrinić

Jürgen P. Czapran

Note 1 to the special purpose statement of financial position - opening balance

Basis of preparation

This special purpose statement of financial position - opening balance has been prepared under the historical cost convention, except for available-for-sale investments stated at fair value.

The Company's special purpose statement of financial position - opening balance is presented in Croatian Kuna (HRK) which is the Company's functional currency. All amounts disclosed in the opening balance are stated in millions of HRK if not otherwise stated.

This special purpose statement of financial position - opening balance is prepared in accordance with the accounting policy set out below that is based on the measurement and recognition rules of International Financial Reporting Standards (IFRS).

Accounting for legal merger

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

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

As a result of the merger, all assets and liabilities of transferor company were transferred to HT d.d. Since HT d.d. held 100% of the shares of T-Mobile, this transaction represents a legal reorganisation without exchange of economic resources with 3rd parties, therefore, not having immediate economic consequences on shareholders of HT d.d., IFRS does not directly prescribe accounting for such a legal merger. The Company therefore applied the hierarchy in paragraphs 10-12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to choose an accounting policy. In the absence of a standard or interpretation that deals with similar or related issues, and in the absence of guidance in the Framework for the Preparation and Presentation of Financial Guidance, guidance issued by other standard setting bodies may be referred to. An entity may therefore account for a common control business combination using pronouncements issued by other standard setting bodies in other countries, as long as that guidance does not conflict with the IFRS Framework or any other IFRS standard or interpretation.

The Company has chosen to account for the legal merger using the pooling of interest method. The pooling of interest method requires that assets and liabilities are transferred at their carrying values. Therefore, the assets and liabilities of T-Mobile are transferred to the opening statement of financial position of HT d.d. as of 1 January 2010 at their closing carrying values on 31 December 2009. At the same time, all balances of receivables and payables between HT d.d. and T-Mobile are eliminated. Also, the subscribed capital of T-Mobile is eliminated against the carrying value of the investment in HT d.d. held in T-Mobile. The resulting difference between the net assets of T-Mobile and the value of the investment in HT d.d. held in T-Mobile is recorded in the equity of HT d.d. Thus retained earnings and the unallocated profit of T-Mobile are presented as a separate component of equity.

Note 1 to the special purpose statement of financial position - opening balance (continued)

Accounting for legal merger (continued)

The Company's accounting policy is not to restate comparative financial information before the legal merger and, therefore, comparative information is not presented.

This special purpose statement of financial position - opening balance is reflecting the same principles and presented amounts as if a consolidated statement of financial position as at 31 December 2009 of a Group consisting only of the company HT d.d. and its subsidiary T-Mobile had been prepared. However, for an understanding of the financial position of HT Group, the consolidated statement of financial position of HT Group should be used.