T-Mobile Hrvatska d.o.o.

Financial statements as of 31 December 2009

and auditors' report

Contents

Corporate profile

Principal activities

The principal activities of T-Mobile Hrvatska d.o.o. (hereinafter: the Company or T-Mobile) comprised of providing of mobile telecommunications services and the design and construction of mobile communication networks as well as importing, renting and selling of telecommunications equipment in the Republic of Croatia. The Company operated GSM and UMTS mobile telephone networks.

In addition to voice services and various tariff plans adjusted to different customer needs, the Company offered a number of complementary services, such as messaging (SMS, MMS, mobile e-mail), mobile data (GPRS / UMTS, EDGE, HSDPA, Web 'n' walk, Java download), mobile commerce (m-pay service in partnership with PBZ, SMS kupovina, SMS bon, SMSparking, SMSprijevoz), information services and several solutions targeted at business customers and offers based on specific customers' needs. The Company offered national coverage of EDGE, UMTS and HSDPA services. National roaming agreement with Tele2 was commercially launched in June 2008.

Significant events

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 toping-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.

T-Mobile maintained market leader position with overall SIM market share of 46.7%. At the 31 December 2009, T-Mobile had more than 2.86 million subscribers.

Financial review and strategy

The principal strategic aim of the Company was to become the Most Highly Regarded Service Company. In order to achieve this, the Company has focused on the following strategic goals:

- increase of total revenue,
- build and maintain strong individual relationships with customers,
- create a service oriented culture amongst its employees,
- save for new services.

In order to achieve strategic goals of the Company, to cope with significant increase of data traffic and number of users while providing the high quality of our network and services during the 2009 the Company has continued to build and modernize radio access network (RAN). In the domain of core network the Company has been oriented towards enabling of next generation mobile network (NGMN), which is now in testing phase and preparation for traffic/subscriber migration.

During 2009 the Company has continued with consolidation of its service platforms, increasing availability and enabling better quality of services while reducing operating expenses. Network quality continues to be in the focus of the Company's activities in 2009.

Directors and management

Supervisory Board

The members of the Supervisory Board who served during 2009, until December 31, 2009, were as follows:

Ivica Mudrinić	President	From 1 January 2003
Michael Günther	Deputy president	Until 21 April 2009
Kay Nolden	Member	From 21 April 2009
Katharina Elisabeth Hollender	Member	Until 30 April 2009
G. Günther Mossal	Deputy president	From 1 May 2009 member of the Supervisory Board and from 4 May deputy president of the Supervisory Board
Erika Kašpar	Member	From 15 March 2007
Josip Pupić	Member	From 19 July 2004
Irena Jolić Šimović	Member	From 1 August 2006
Siniša Đuranović	Member	From 6 November 2008

Mr Michael Günther resigned from the position of Supervisory Board Member of T-Mobile Hrvatska d.o.o. as of April 21, 2009. Mr. Kay Nolden was appointed as a Supervisory Board Member of T-Mobile Hrvatska d.o.o. as of April 21, 2009. On April 30, 2009 Ms Katharina Elisabeth Hollender's 4 years mandate term expired. Mr Günther Mossal was appointed as a Supervisory Board Member of T-Mobile Hrvatska d.o.o. for the period of four years as of May 1, 2009 and as of May 4, 2009 he was appointed as a deputy president of the Supervisory Board.

Directors and management *continued*

Management Board

The members of the Management Board who served during 2009 until December 31, 2009 are as follows:

Rainer Rathgeber	President	Until 30 September 2009
Jürgen P. Czapran	Member	From 1 December 2004
Davor Daraboš	Member	From 1 December 2003
Maria Zesch	Member	From 1 September 2008
Božidar Poldrugač	Member	From 1 January 2003
Branka Skaramuča	Member	From 1 March 2004

Mr. Rainer Rathgeber resigned from the position of President of the Management Board and Chief Executive Officer of T-Mobile Hrvatska d.o.o., effective as of September 30, 2009. After resignation of Mr. Rainer Rathgeber, the Assembly of T-Mobile Hrvatska d.o.o. passed the Decision by which the Management Board of T-Mobile Hrvatska d.o.o. consists of 5 Members and by which activities falling within the responsibilities of the President of the Management Board and Chief Executive Officer of T-Mobile Hrvatska d.o.o. are temporarily added to the function of the Member of the Management Board and Chief Financial Officer, Mr. Jürgen P. Czapran.

Ms. Maria Zesch resigned from the position of Member of the Management Board and Chief Marketing Officer of T-Mobile Hrvatska d.o.o., effective as of January 1, 2010.

Statement of responsibilities of the Management Board

Pursuant to the Croatian Accounting Law in force the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) and give a true and fair view of the state of affairs and results of the Company for that period.

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

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

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

The accompanying financial statements were approved for issuance by the Management Board on 08 February 2010.

HT-Hrvatske telekomunikacije d.d.
Savska cesta 32
10000 Zagreb
Republic of Croatia
8 February 2010

On behalf of the Management Board

Ivica Mudrinić
President of the Management Board

Jürgen P. Czapran
Member of the Management Board and CFO

Independent Auditor's Report

To the Board of Directors and the shareholders of HT-Hrvatske telekomunikacije d.d.:
We have audited the accompanying financial statements of T- Mobile Hrvatska d.o.o. ("T- Mobile" or the "Company") which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 13 to 52.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2009 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditor's Report (continued)

Emphasis of Matter

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

As explained in more details in Note 23, Competitor made a complaint to Croatian Competition Agency (CCA) and Croatian Post and Electronic Communications Agency (Agency) regarding frame agreements and appendices thereto (Frame Agreements) signed with some of the Company’s key and large business customers that allegedly contained anti competition clauses. CCA brought a decision stating that T-Mobile Hrvatska d.o.o. and HT-Hrvatske telekomunikacije d.d. (HT) abused their dominant position by conclusion of the Frame Agreements. In the decision CCA, inter alia, stated that it would initiate proceedings before the Misdemeanor Court against the Company and HT for determining whether the misdemeanor occurred and, if so, for assessing any penalty. Misdemeanor proceedings have been initiated. At the year end the Company was not able to determine the likelihood of the possible outcome and the amount, so no provision for any liability has been made in the financial statements.

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

8 February 2010

T- Mobile Hrvatska d.o.o. statement of comprehensive income
for the year ended 31 December 2009

	Notes	2009 HRK million	Restated 2008 HRK million
Operating revenues			
Rendering of services	3	4,189	4,411
Other operating income		128	162
Total operating income		**4,317**	**4,573**
Operating expenses			
Merchandise, material and energy expenses		(640)	(725)
Services expenses	5	(829)	(890)
Employee benefit expenses	4	(234)	(228)
Depreciation and amortization	6	(461)	(466)
Impairment of non-current assets	7	(33)	(3)
Write down of current assets		(90)	(100)
Other expenses	8	(689)	(692)
Total operating expenses		(2,976)	(3,104)
Operating profit		**1,341**	**1,469**
Financial income	9	130	107
Financial costs	9	(6)	(8)
Profit before tax		**1,465**	**1,568**
Taxation	10	(302)	(333)
Profit for the year		**1,163**	**1,235**
Valuation gains from available for sale financial assets		-	(1)
Actuarial gain	19	1	-
Total net comprehensive income for the year		1,164	1,234

T- Mobile Hrvatska d.o.o. statement of financial position

as at 31 December 2009

	Notes	31 December 2009 HRK million	Restated 31 December 2008 HRK million	Restated 01 January 2008 HRK million
Assets				
Non-current assets				
Intangible assets	11	580	525	548
Property, plant and equipment	12	1,103	1,185	1,168
Deferred tax assets	10	15	20	22
Available for sale financial assets	14	83	8	9
Total non-current assets		1,781	1,738	1,747
Current assets				
Inventories	13	60	102	87
Available for sale financial assets	14	110	10	20
Trade and other current receivables	15	672	643	590
Prepayments and accrued income	16	54	42	52
Time deposits	26	2	2	407
Cash and cash equivalents	27	2,462	1,586	886
Total current assets		3,360	2,385	2,042
Total assets		5,141	4,123	3,789

T- Mobile Hrvatska d.o.o. statement of financial position *continued*

as at 31 December 2009

	Notes	31 December 2009 HRK million	Restated 31 December 2008 HRK million	Restated 01 January 2008 HRK million
Equity and liabilities				
Issued capital and reserves				
Subscribed share capital	21	1,478	1,478	1,478
Statutory reserves		-	229	176
Retained earnings		1,459	(5)	6
Fair value reserves		(1)	(1)	-
Actuarial gains and losses	19	1	-	(8)
Net profit for the year		1,163	1,235	1,057
Total issued capital and reserves	21	4,100	2,936	2,709
Non - current liabilities				
Provisions	20	29	6	23
Employee benefit obligations	19	23	21	22
Total non-current liabilities		52	27	45
Current liabilities				
Trade and other payables	17	735	774	741
Short term provisions	20	59	43	25
Deferred income	18	182	261	226
Income tax payable		13	82	43
Total current liabilities		989	1,160	1,035
Total liabilities		1,041	1,187	1,080
Total equity and liabilities		5,141	4,123	3,789

Signed on behalf of HT-Hrvatske telekomunikacije d.d. on 8 February 2010:

Ivica Mudrinić
President of the Management Board and CEO

Jürgen P. Czapran
Member of the Management Board and CFO

T- Mobile Hrvatska d.o.o. statement of cash flows

for the year ended 31 December 2009

	Notes	2009 HRK million	Restated 2008 HRK million
Profit before tax from operating activities		1,465	1,568
Depreciation charges	6	461	466
(Increase) / Decrease in inventories		42	(15)
(Increase) in receivables and prepayments		(105)	(109)
Increase in payables and deferred income		(14)	117
Interest income		(124)	(99)
Provision for fixed assets		33	3
Loss on disposal of fixed assets		5	(1)
Increase in employee benefit obligations		2	2
Provisions - non-cash items		1	3
Increase in recognised actuarial losses		1	-
Decrease in deferred tax asset		5	2
Income tax paid		(372)	(294)
Net cash flows from operating activities		1,400	1,643
Investing activities			
Purchase of non-current assets		(472)	(462)
Decrease / (increase) in available for sale financial assets		(174)	12
Decrease in time deposits		-	405
Interest received		122	105
Net cash flows used in investing activities		(524)	60
Financing activities			
Retained earnings paid to the parent company		-	(1,003)
Net cash flows used in financing activities		-	(1,003)
Net increase in cash and cash equivalents		876	700
Cash and cash equivalents balances			
Cash and cash equivalents at 1 January		1,586	886
Net cash inflow		876	700
Cash and cash equivalents at 31 December	27	2,462	1,586

The cash flow statement is prepared by using the indirect method.

T- Mobile Hrvatska d.o.o. statement of changes in equity

for the year ended 31 December 2009

	Subscribed share capital	Statutory reserves	Retained earnings	Fair value reserves (Note 14)	Actuarial losses	Net profit for the year	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Balance as at 31 December 2007 after the correction	**1,478**	**176**	**1**	**-**	**(8)**	**1,057**	**2,704**
Transfer to statutory reserve	-	53	-	-	-	(53)	-
Allocation of retained earnings	-	-	1,004	-	-	(1,004)	-
Retained earnings paid to shareholder	-	-	(1,002)	-	-	-	(1,002)
Actuarial loss coverage	-	-	(8)	-	8	-	-
Profit for the financial year	-	-	-	-	-	1,235	1,235
Other comprehensive income	-	-	-	(1)	-	-	(1)
Balance as at 31 December 2008	**1,478**	**229**	**(5)**	**(1)**	**-**	**1,235**	**2,936**
Allocation of retained earnings	-	(229)	1,458	-	-	(1,235)	(6)
Transfer to statutory reserve	-	-	6	-	-	-	6
Profit for the financial year	-	-	-	-	-	1,163	1,163
Other comprehensive income	-	-	-	-	1	-	1
Balance as at 31 December 2009	**1,478**	**-**	**1,459**	**(1)**	**1**	**1,163**	**4,100**

1 Status of T-Mobile Hrvatska d.o.o.

The Company was a limited liability company whose sole shareholder is HT-Hrvatske telekomunikacije d.d. (“HT”) (100%).

The Company was registered at the Commercial Court on 6 November 2002 and a cash contribution was made by HT in the amount of HRK 24,800. The share capital of the Company was increased on 20 December 2002 to the amount of HRK 1,478,000,000 through a further in kind and cash contribution, so that the total share of HT, as the sole shareholder of the Company, amounts to HRK 1,478,000,000. Ultimate parent of HT-Hrvatske telekomunikacije is Deutsche Telekom AG (“DT”). The registered office address of the Company is Ulica grada Vukovara 23, Zagreb, Republic of Croatia.

The total number of employees of the Company as at 31 December 2009 was 1, 042 (2008: 1, 085).

Procedure of merging of the company T-Mobile Hrvatska d.o.o. to the company Croatian Telecom Inc.

On October 29, 2009 the Management Board of T-Mobile Hrvatska d.o.o. (Management Board of T-Mobile) and the Management Board of Croatian Telecom Inc. (Management Board of HT) concluded, with prior approval of the Supervisory Board of T-Mobile Hrvatska d.o.o., a Merger Agreement. The merger procedure was conducted in accordance with provisions of the Companies Act and internal acts of the company T-Mobile Hrvatska d.o.o. (T-Mobile).

For this purpose, on October 20, 2009, the Management Board of T-Mobile adopted the Joint Report of the Management Boards on the Merger of both companies, T-Mobile Hrvatska d.o.o. (Transferor Company) and Croatian Telecom Inc. (Transferee Company). Aforementioned Joint Report was forwarded to the Supervisory Board of T-Mobile Hrvatska d.o.o. and on October 29, 2009 the Supervisory Board of T-Mobile Hrvatska d.o.o. performed verification of the intended merger and examined the Joint Report of the Management Boards as well as Merger Agreement. Based on above mentioned verification, the Supervisory Board of T-Mobile accepted the economic and legal reasons for the merger, and determined that T-Mobile as the transferor company implemented the procedure in accordance with the Law and the Deed of Incorporation of T-Mobile.

With the prior approval of the Supervisory Board, the Management Board of T-Mobile on its session performed on October 20, 2009 passed the Decision by which the Management Board of T-Mobile and the Management Board of HT shall submit to the Croatian Post and Electronic Communications Agency (Agency) a request for obtaining approval for transfer of rights of use of addresses and numbers in accordance with Article 74 of the Electronic Communications Act, a request for obtaining approval for transfer of license for the use of radio spectrum in accordance with Article 92 of the Electronic Communications Act, a request for modifications of data from the prior notification of Croatian Telecom Inc. in accordance with Article 32 paragraph 3 of Electronic Communications Act as well as all other needed requests, notifications and letters in accordance with Electronic Communications Act with the purpose of transfer of the activities of electronic communications services in mobile network from T-Mobile to Croatian Telecom Inc. (HT). On November 3, 2009 T-Mobile and HT submitted joint request to the Agency for modifications of data from the prior notification of HT, in a way that services from the prior notification which T-Mobile submitted to Agency and on which the Agency on February 18, 2009 issued a confirmation shall be transferred to HT, and that, with realization of legal effect of the merger of T-Mobile and HT, in accordance with special regulations, T-Mobile shall be erased from the list of operators.

1 Status of T-Mobile Hrvatska d.o.o. *continued*

On December 2, 2009 the Agency passed resolutions by which approval for transfer of license for the use of radio spectrum from T-Mobile to HT is obtained. Transfer of licenses and transfer of rights and obligations arising from those licenses will make legal effect as of the following day from the day when merger has entered into register file of HT at the Trade Court in Zagreb. On December 2, 2009 the Agency passed the Decision by which approval for transfer of rights of use of addresses and numbers from T-Mobile to HT is obtained. Transfer of rights of use of addresses and numbers and assigning aforementioned addresses and numbers to HT will make legal effect as of the following day from the day when merger has entered into register file of HT at the Trade Court in Zagreb.

Furthermore, in accordance with Companies Act, the Management Board and the Supervisory Board of T-Mobile passed the Decision by which they will not assert nullity and set aside the Decision of the sole shareholder of the company that approves the Merger Agreement between T-Mobile as the transferor company and HT as the transferee company. Therefore, on December 1, 2009 all Members of the Management and Supervisory Board of T-Mobile singed the Statement of Not Setting Aside the Decision on the Approval of the Merger Agreement. On December 31, 2009 all Members of the Management Board of T-Mobile (as well as all Members of the Management Board of HT), signed an additional statement that the Decision on merger of the company T-Mobile to the company HT has not been contested in the deadline provided for such contesting, nor has such contesting been rejected in a legally final manner.

During December 2009, all T-Mobile suppliers and all customer of T-Mobile's services were informed about the fact that T-Mobile and HT concluded a Merger Agreement and that on the day of entry of the merger of the company T-Mobile to the company HT in the Trade Court Register, HT shall take over all rights and obligations of the company T-Mobile, which shall be dissolved from that day.

On December 1, 2009 the Assembly of T-Mobile passed the decision on approval of the Merger Agreement. On December 31, 2009 the Trade Court Register in Zagreb passed the Resolution on the entry of the merger of the company T-Mobile to the company HT. 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.

2 Summary of significant accounting policies

A summary of the significant accounting policies of the Company is set out below:

a) Basis of accounting

The Company maintained its accounting records in Croatian Kuna (HRK) and in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board.

The financial statements cover individual accounts of the Company.

The level of rounding is HRK million.

2 Summary of significant accounting policies *continued*

b) Basis of preparation

Financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared under the historical cost convention, except following:

Available-for-sale investments are stated at their fair value as disclosed in the accounting policies hereafter.

c) Measurement currency

The Company's financial statements are prepared in HRK. All amounts disclosed in the financial statements are stated in million of HRK unless otherwise stated. The effective exchange rates at 31 December were as follows:

	2009	2008
HRK to Euro	7.31	7.32
HRK to United States Dollar	5.09	5.16

d) Changes in accounting policy and disclosures

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

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

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

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

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

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

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

2 Summary of significant accounting policies *continued*

d) Changes in accounting policy and disclosures (continued)

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

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

IFRS 7 Financial Instruments: Disclosures (early adopted)

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurement is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 14. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 24.

IFRS 8 Operating Segments (early adopted)

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The standard did not have an impact on the financial position or performance of the Company, nor did it require any disclosures.

IAS 1 Presentation of Financial Statements (early adopted)

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

IAS 23 Borrowing Costs (Revised)

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

2 Summary of significant accounting policies *continued*

d) Changes in accounting policy and disclosures (continued)

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

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

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

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

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

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

IFRIC 13 Customer Loyalty Programmes

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

Due to the implementation of IFRIC 13, following reclassifications of Statement of comprehensive income for 2008, have been made: position Revenue was decreased by 19 HRK million, position Other revenue was increased by 1 HRK million, and position Other expenses was decreased by 18 HRK million.

2 Summary of significant accounting policies *continued*

d) Changes in accounting policy and disclosures (continued)

Due to implementation of IFRIC 13, following reclassifications to Statement of financial position as of 1 January 2008 have been made: Short term provisions were decreased by 21 HRK million, long-term provisions were decreased by 8 HRK million and position Deferred income was increased by 29 HRK million.

Due to the implementation of IFRIC 13, following reclassifications to Statement of financial position as of 31 December 2008 have been made: Short term provisions were decreased by 32 HRK million, long-term provisions were decreased by 15 HRK million and position Deferred income was increased by 47 HRK million.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risk that qualifies for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how the Company should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

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

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

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

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

2 Summary of significant accounting policies *continued*

d) Changes in accounting policy and disclosures (continued)

Improvements to IFRSs

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

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

  The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Company as no government grants or assistance have been received.

2 Summary of significant accounting policies *continued*

d) Changes in accounting policy and disclosures (continued)

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

- IAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the Company.

  The amendment clarified the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company.

- IAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. This amendment has no impact on the Company because costs for such activities have also previously immediately been expensed.

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

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

- IFRS 2 *Share-based Payments*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 19 *Employee Benefits*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investments In Associates*
- IAS 31 *Interest In Joint Ventures*
- IAS 34 *Interim Financial Reporting*

2 Summary of significant accounting policies *continued*

d) Changes in accounting policy and disclosures (continued)

- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 40 *Investment Properties*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting. By the end of 2010 the IAS 39 will be completely replaced by IFRS 9.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

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

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities.

2 Summary of significant accounting policies *continued*

d) Changes in accounting policy and disclosures (continued)

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

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants.

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

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

e) Investments and other financial assets

Investments are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss (assets held for trading), loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. All purchases and sales of financial assets are recognised on the settlement date.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies *continued*

f) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised in the event that the future economic benefits that are attributable to the assets will flow to the enterprise, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The average amortisation period for intangible assets is five years. The amortisation method, residual value and useful life are reviewed quarterly during the year and at each financial year-end.

Amortisation of the intangible assets commences when the intangible asset is available for use. Amortisation of the UMTS licence has started when operations for the UMTS network started commercial use and the amortisation period is the term of the licence.

g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance costs are charged to income in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditure have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure are capitalised as an additional cost of property, plant and equipment. Subsequent costs related to items of property, plant and equipment can be capitalized in the case of replacement at regular intervals, prolongation of replacement intervals and the regular large inspection.

2 Summary of significant accounting policies *continued*

Depreciation is computed on a straight-line basis. If significant parts of an item of tangible assets (to the level of asset class) have different useful lives, the depreciation is based on the parts of asset in question. The useful lives on average are as follows:

Buildings	10 – 50 years
Machinery and equipment	3 – 10 years
Furniture and vehicles	5 – 10 years

The useful life, remaining value and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from use of items of property, plant and equipment.

Construction-in-progress represents plant and property under construction and is stated at cost. This includes the cost of construction, plant and equipment and other direct costs. Items included as construction-in-progress are not depreciated until such time as the relevant assets are completed and are available for operational use.

h) Impairment of assets

Financial instruments

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

i) Inventories and trade goods

Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined primarily on the basis of weighted average cost. To determine the value of stocks the method of average (weighted) price is applied and it is determined for each new procurement of or increase in stocks.

2 Summary of significant accounting policies *continued*

j) Receivables

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

k) Foreign currencies

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

l) Operating leases

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

The determination of whether an arrangement is or contains a lease, or whether a lease is financial or operating, is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

m) Income tax

The income tax charge is based on taxable profit for the year.

Deferred taxes are calculated using the balance sheet liability method.

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

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the balance sheet. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

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

2 Summary of significant accounting policies *continued*

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

n) Employee benefits obligation

The Company makes payments to employees that include retirement and jubilee benefits (see Note 19). The obligation and costs of retirement benefits including jubilee benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Changes in actuarial assumptions are resulting with actuarial gains and losses. Such actuarial gains and losses related to retirement benefit payments are presented in a statement of comprehensive income as part of other comprehensive income. Actuarial gains and losses related to jubilee benefit payments are recognised as income / (expense) in the period in which they occur. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

o) Revenue recognition

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

Revenue from mobile telephony includes revenue from monthly fee and call charges for postpaid mobile customers, call charges for prepaid mobile customers, call charges for customers of international mobile operators when roaming on the Company’s network, sale of mobile handsets and interconnection revenues.

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

The Company maintains a loyalty point’s programme, +Club. In accordance with IFRIC 13, customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed.

Revenue arrangements with multiple deliverables (bundled product offers) are recognised in accordance with industry specific US GAAP rule EITF 00-21 as allowed by IFRS. Revenue arrangements with multiple deliverables are divided into separate units of accounting. Arrangement consideration is allocated among the separate units of accounting based on their relative fair values.

2 Summary of significant accounting policies *continued*

The arrangement consideration allocable to a delivered item that does not qualify as a separate unit of accounting within the arrangement is combined with the amount allocable to the other applicable undelivered item within the arrangement. Appropriate recognition of revenue is then applied to those combined deliverables as a single unit of accounting. The amount allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the noncontingent amount).

p) Cash and cash equivalents

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

q) Provisions

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

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

r) Contingencies

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

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

s) Subsequent events

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

t) Significant accounting estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there is an indicator that the carrying amounts may not be recoverable.

2 Summary of significant accounting policies *continued*

Impairment of available-for-sale financial assets

The Company classifies certain assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss.

Deferred tax assets

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

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the balance sheet. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Employee Benefits

The obligation and costs of retirement benefits including jubilee benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to long term nature of these plans, such estimates are subject to significant uncertainty.

u) Restatements in financial statements

Due to the reclassification of credit balance of trade receivables in Statement of financial position as of 31 December 2008, total amount of 67 HRK million was reclassified from position Trade and other current receivables to position Trade and other payables.

Due to reclassification of credit balances of trade receivables in Statement of financial position as of 01 January 2008, credit balance, total amount of 59 HRK million was reclassified from position Trade and other current receivables to position Trade and other payables.

3 Revenue

a) Revenue - by business

	2009 HRK million	Restated 2008 HRK million
Revenue from mobile telephony services	3,925	4,188
Revenue from merchandise sales	264	223
	4,189	4,411

b) Revenue – by geographical area

	2009 HRK million	Restated 2008 HRK million
Republic of Croatia	3,838	3,963
Rest of the World	351	448
	4,189	4,411

4 Employee benefit expenses

	2009 HRK million	2008 HRK million
Gross salaries	173	171
Other employee related expenses	53	52
Other long-term employee expenses	4	3
Redundancy expenses	4	2
	234	228

5 Services expenses

	2009 HRK million	2008 HRK million
Domestic interconnection	626	648
International interconnection	151	174
Other services	47	63
Bank and money charges	5	5
	829	890

6 Depreciation and amortization

	2009 HRK million	2008 HRK million
Depreciation of tangible assets (Note 12)	292	301
Amortisation of intangible assets (Note 11)	169	165
	461	466

7 Impairment of non-current assets

Impairment of non-current assets in the amount of HRK 33 million (2008: 3 million) mostly relates to the impairment of licences and software because of its obsolescence and planned modernisation.

Impairment was recorded because the Company plans to dispose of those assets before the expiration of their previously estimated useful life.

8 Other expenses

	2009 HRK million	Restated 2008 HRK million
Selling Commissions	145	163
Advertising expenses	120	149
Maintenance expenses	101	104
Licences expenses	88	68
Rental & Leasing expenses	88	81
Temporary work and personnel leasing	48	41
Other operating charges	21	11
Postal expenses	21	18
Provisions for charges and risk	13	14
Non – income taxes & contributions	11	12
Education expenses	8	7
Business trip expenses	6	7
Legal and audit expenses	6	7
Loss on disposal of fixed assets	5	4
Consulting expenses	4	2
Insurance	4	4
	689	692

9 Financial income and financial costs

Financial income in the amount of HRK 130 million (2008: 107 million) mainly relates to interest income from deposits in banks in the amount of HRK 95 million (2008: 106 million) and yield of treasury bills in the amount of HRK 30 million

Financial costs in amount of HRK 6 million (2008: 8 million) mainly relate to bank guarantees for deposits in the amount of HRK 4 million (2008: 2 million).

10 Taxation

a) Tax on profit on ordinary activities

	2009 HRK million	2008 HRK million
Current tax expense	297	331
Deferred tax asset recognised	(12)	(14)
Used deferred tax asset	11	16
Expired deferred tax asset	6	-
Total income tax	302	333

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

	2009 HRK million	2008 HRK million
Profit before tax	1,465	1,568
Income tax at 20%	293	314
Tax effects of income not taxable in determining taxable profit:		
Incentive for research and development, education and professional development	(1)	(1)
Tax effect of expenses not deductible in determining taxable profit:		
Cost of representation	-	1
Cost of private use of company cars	1	1
Exclusion	1	-
Write off of bad debt	6	6
Release of deferred tax asset	1	1
Shortages	-	1
Difference by final tax calculation	(2)	3
Other non-deductible expenses	3	7
Taxation	302	333
Effective income tax rate	20,61%	21,24%

10 Taxation *continued*

c) Deferred tax

A deferred tax asset is recognized on currently non-tax deductible items included in the Company's 2008 and 2009 income tax return, as follows:

	31 December 2007	Used during the year	Expired during the year	Credited to income statement	31 December 2008
	HRK million	HRK million	HRK million	HRK million	HRK million
Accruals for commissions	3	(3)	-	3	3
Non-tax deductible value adjustment of receivables	16	(10)	-	10	16
Non-tax deductible accruals for bonus	1	(1)	-	1	1
Accrued fees for selling agents	2	(2)	-	-	-
	22	(16)	-	14	20

	31 December 2008	Used during the year	Expired during the year	Credited to income statement	31 December 2009
	HRK million	HRK million	HRK million	HRK million	HRK million
Accruals for commissions	3	(3)	-	-	-
Non-tax deductible value adjustment of receivables	16	(7)	(6)	9	12
Non-tax deductible accruals for bonus	1	(1)	-	1	1
Accrued fees for sellng agents	-	-	-	2	2
	20	(11)	(6)	12	15

11 Intangible assets

Intangible assets movement table for 2009:

	Patents, licenses, concessions & trademarks	Investment in software	Investment in 3rd party assets and other similar rights	Intangible assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Cost					
At 31 December 2008	549	584	11	28	1,172
Additions	-	-	-	203	203
Reclassification from tangible assets	-	15	-	53	68
Transfers	98	147	4	(249)	-
Disposals	(19)	(42)	-	-	(61)
At 31 December 2009	628	704	15	35	1,382
Accumulated amortisation					
At 31 December 2008	318	323	6	-	647
Charge for the year	60	106	3	-	169
Impairment	23	-	-	-	23
Reclassification from tangible assets	-	24	-	-	24
Disposals	(32)	(29)	-	-	(61)
At 31 December 2009	369	424	9	-	802
Net book value					
At 31 December 2008	231	261	5	28	525
At 31 December 2009	259	280	6	35	580

11 Intangible assets *continued*

Intangible assets movement table for 2008:

	Patents, licenses, concessions & trademarks	Investment in software	Investment in 3rd party assets and other similar rights	Intangible assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Cost					
At 31 December 2007	506	662	11	31	1,210
Additions	-	-	-	125	125
Reclassification from tangible assets	-	-	-	22	22
Transfers	58	92	-	(150)	-
Disposals	(15)	(170)	-	-	(185)
At 31 December 2008	549	584	11	28	1,172
Accumulated amortisation					
At 31 December 2007	269	389	4	-	662
Charge for the year	65	98	2	-	165
Impairment	2	-	-	-	2
Reclassification from tangible assets	1	2	-	-	3
Disposals	(19)	(166)	-	-	(185)
At 31 December 2008	318	323	6	-	647
Net book value					
At 31 December 2007	237	273	7	31	548
At 31 December 2008	231	261	5	28	525

The carrying value of the UMTS licence as of 31 December 2009 is HRK 101 million (2008: 108 million). This licence is being amortised in a period from June 2005 until October 2024.

The remainder of the balance primarily relates to the various licences for use of software and other licences.

The gross carrying value of fully depreciated intangible assets still in use as at 31 December 2009 was HRK 247 million (2008: 89 million).

12 Property, plant and equipment

Property, plant and equipment movement table for 2009:

	Land and buildings	Plant and machinery	Tools, vehicles and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Cost					
At 31 December 2008	568	2,215	59	146	2,988
Additions	-	-	-	269	269
Reclassification to intangible assets	-	(15)	-	(53)	(68)
Transfers	67	230	3	(300)	-
Disposals	(1)	(48)	(1)	(2)	(52)
At 31 December 2009	634	2,382	61	60	3,137
Accumulated depreciation					
At 31 December 2008	179	1,597	26	1	1,803
Charge for the year	49	234	9	-	292
impairment	-	10	-	-	10
Reclassification to intangible assets	-	(24)	-	-	(24)
Disposals	-	(47)	-	-	(47)
At 31 December 2009	228	1,770	35	1	2,034
Net book value					
At 31 December 2008	389	618	33	145	1,185
At 31 December 2009	406	612	26	59	1,103

12 Property, plant and equipment *continued*

Property, plant and equipment movement table for 2008:

	Land and buildings	Plant and machinery	Tools, vehicles and office equipment	Assets under construction	Total
	HRK million	HRK million	HRK million	HRK million	HRK million
Cost					
At 31 December 2007	516	2,090	55	105	2,766
Additions	-	-	-	342	342
Reclassification to intangible assets	-	-	-	(22)	(22)
Transfers	54	219	5	(278)	-
Disposals	(2)	(94)	(1)	(1)	(98)
At 31 December 2008	568	2,215	59	146	2,988
Accumulated depreciation					
At 31 December 2007	140	1,439	18	1	1,598
Charge for the year	43	249	9	-	301
Impairment	-	2	-	-	2
Reclassification to intangible assets	(3)	-	-	-	(3)
Disposals	(1)	(93)	(1)	-	(95)
At 31 December 2008	179	1,597	26	1	1,803
Net book value					
At 31 December 2007	376	651	37	104	1,168
At 31 December 2008	389	619	32	145	1,185

Included within assets under construction are fixed asset spare parts in the amount of HRK 17 million (2008: 31 million).

Following the separation from HT the Company performed additional procedures which provided support for the existence of legal title to land and buildings transferred from HT.

Disposal of property, plant and equipment

Disposal of the Company’s property, plant and equipment primarily relates to the disposal of the parts of the base stations as a part of the network modernisation. Total value of impairment for the assets that were written off is HRK 1 million (2008: HRK 1 million was sold), which is recorded as an expense in the accompanying income statement.

12 Property, plant and equipment *continued*

Fully depreciated assets

The gross carrying value of fully depreciated property, plant and equipment still in use as at 31 December 2009 was HRK 722 million (2008: 567 million).

13 Inventories

	31 December 2009 HRK million	31 December 2008 HRK million
Merchandise	46	90
Other (promotional material, spare parts)	14	12
	60	102

14 Available for sale financial assets

	31 December 2009 HRK million	Level 1 HRK million	Level 2 HRK million	Level 3 HRK million
Current assets – Investment in state bonds	110	110	-	-
Non-current assets – Investment in state bonds	83	83	-	-
Total available for sale current assets	193	193	-	-

	31 December 2008 HRK million	Level 1 HRK million	Level 2 HRK million	Level 3 HRK million
Current assets – Unit holdings in money market funds	10	10	-	-
Non-current assets – Investment in state bonds	8	8	-	-
Total available for sale current assets	18	18	-	-

During the year, there were no transfers between levels.

The Company has invested in Republic of Croatia state bonds whose purchase value was HRK 10 million with a 4.75% interest rate, and German state bonds whose purchase value was HRK 150 million (EUR 20 million) with a 3% and 1.25 % interest rate.

15 Trade and other current receivables

	31 December 2009 HRK million	Restated 31 December 2008 HRK million
Trade debtors	660	630
Other debtors	12	13
	672	643

Movements in the provision for bad and doubtful debts were as follows:

	2009 HRK million	Restated 2008 HRK million
At the beginning of the period	434	372
Charge for the year	90	100
Utilised	(24)	(38)
At the end of the period	500	434

Ageing structure of Trade debtors is as follows

	2009 HRK million	Restated 2008 HRK million
Total Trade debtors	660	630
Past due, but not impaired	144	169
1 - 30 days overdue	105	140
31 - 60 days overdue	21	16
61 - 90 days overdue	11	7
91 -120 days overdue	7	6

Collateral for trade receivables from indirect partners is credit limit, bank guarantee and blank note. Collateral for trade receivables from interconnection partners is bank guarantee in the amount of 6 monthly invoices and blank promissory note.

16 Prepayments and accrued income

Prepayments in the amount of HRK 54 million (2008: HRK 42 million) mainly relate to paid fees for number usage in the amount of HRK 18 million (2008: HRK 21 million) and concession fees in the amount of HRK 27 million (2008: HRK 14 million).

17 Trade and other payables

	31 December 2009 HRK million	Restated 31 December 2008 HRK million
Financial liabilities		
Trade payables	685	711
Non-financial liabilities		
Other creditors	21	11
Accrued liabilities	20	25
Payroll and payroll taxes	16	16
VAT and other taxes payable	(7)	11
	735	774

Financial liabilities are normally settled on 30-60 day terms.

18 Deferred income

Deferred income in the total amount of HRK 182 million (2008: HRK 261 million) mainly relates to HRK 140 million (2008: HRK 208 million) of prepaid vouchers (Simpa).

19 Employee benefit obligations

All employees were covered by the State pension fund. Provisions were established for benefits payable in respect of retirement, jubilee (length of service) and surviving dependant payments. Retirement benefits were dependent on the employees fulfilling the required conditions to enter retirement from the Company and jubilee benefits were dependent on the number of years of service. The amount of all benefit entitlements was determined by the respective employee's monthly remuneration. The obligation resulting from these defined benefit plans was determined using the projected unit credit method.

Changes in actuarial assumptions are resulting with actuarial gains and losses. Such actuarial gains and losses related to Retirement benefit payments are presented in a Statement of comprehensive income. Actuarial gains and losses related to jubilee benefit payments are recognised as income / (expense) in the period in which they occur. There were no plan terminations or curtailments for the year ended 31 December 2009.

19 Employee benefit obligations *continued*

Employee benefits disclosed as part of staff costs expense comprises of the following:

	2009 HRK million	2008 HRK million
Current service cost	3	2
Interest expense on obligations	1	1
Amortisation of past service cost	-	-
Amortisation of loss	1	1
Total pension expense	5	4

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

	2009 HRK million	2008 HRK million
Net liability, beginning of year	21	19
Net expense recognised in the income statement	5	4
Payments made under scheme	(2)	(2)
Actuarial (gain)/loss recognised in statement of comprehensive income	(1)	-
Net liability, end of year	23	21

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

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

20 Provisions

	31 December 2009 HRK million	Restated 31 December 2008 HRK million
Provisions for short term liabilities	59	43
Provisions for long term liabilities	29	6
Total provisions	88	49

20 Provisions *continued*

Long term liabilities movement table:

	Asset retirement obligation	Legal claims	Capitalization of easement and building rights	Total
	HRK million	HRK million	HRK million	HRK million
At 1 January 2008	**-**	**5**	**-**	**5**
Increase during the year	-	1	-	1
Decrease during the year	-	-	-	-
At 31 December 2008	**-**	**6**	**-**	**6**
Increase during the year	15	2	6	23
Decrease during the year	-	-	-	-
At 31 December 2009	**15**	**8**	**6**	**29**

Short term liabilities movement table:

	Handset budget	Other provisions	Total
	HRK million	HRK million	HRK million
At 1 January 2008	**25**	**-**	**25**
Increase during the year	12	6	18
Decrease during the year	-	-	-
At 31 December 2008	**37**	**6**	**43**
Increase during the year.	15	1	16
Decrease during the year	-	-	-
At 31 December 2009	**52**	**7**	**59**

Provisions for long term liabilities consist of provisions for several legal actions and claims that management has assessed as probable they will result in future cost for the Company in the amount of HRK 8 million (2008: HRK 6 million), capitalised cost of easement and building rights in the amount of HRK 6 million (2008: HRK 0 million) and provision for asset retirement obligations in the amount of HRK 15 million (2008: HRK 0 million).

Provisions for short term liabilities relate to provisions for undelivered handsets for which there is contractual obligation for deliveries at discounted prices in the amount of HRK 52 million (2008: HRK 37 million) and provision for unused vacation in the amount of HRK 7 million (2008: HRK 6 million).

21 Equity

Capital stock

On 31 December 2009 and 31 December 2008, the total share of HT-Hrvatske telekomunikacije d.d. in the Company amounts to HRK 1,478,000,000.

22 Commitments

a) Operating lease commitments

The Company has operating lease commitments in respect of buildings and equipment.
Operating lease charges:

	2009 HRK million	2008 HRK million
Base stations lease	44	42
Real estate	32	25
Cars	6	7
Lease of space for shops	6	6
	88	80

Operating lease of real estate and cars is regulated with HT through SLA agreement. Operating lease of space for shops is regulated with separate contract for each shop. The most significant leases of space for shops are contracted with MIP-DOM LLC and Mimoza LLC. Base stations lease is regulated with lessers throughout Republic of Croatia. The most significant leases of base stations are contracted with HT, VIP-NET LLC and Hrvatske šume LLC.
Future minimum lease payments under non-cancellable operating leases with a term of more than one year as at 31 December 2009 is as follows:

	Real estate 2009 HRK million	Real estate 2008 HRK million	Cars 2009 HRK million	Cars 2008 HRK million	Shops 2009 HRK million	Shops 2008 HRK million	Base stations lease 2009 HRK million	Base stations lease 2008 HRK million
Within one year	5	23	-	7	6	6	42	46
Between 2 and 5 years	23	94	-	28	24	25	152	160
Greater than 5 years	22	117	-	-	5	12	121	170
	50	234	-	35	35	43	315	376

b) Capital commitments

As at 31 December 2009, The Company was committed under contractual agreements to capital expenditure amounting to approximately HRK 338 million (2008: HRK 356 million). These capital commitments relate to commitments to purchase fixed assets in the amount of HRK 223 million and intangible assets of HRK 115 million.

23 Contingent liabilities

Competitor made a complaint to Croatian Competition Agency (CCA) and Croatian Post and Electronic Communications Agency (Agency) regarding frame agreements and appendices thereto (Frame Agreements) signed with some Company's key and large business customers that allegedly contained anti competition clauses. CCA initiated proceedings for assessment of compliance of Frame Agreements with the Law on Protection of Market Competition. The Company has delivered to CCA all requested Frame Agreements as well as the subscriber contracts dated 1 January 2003 onwards. CCA has initiated administrative proceedings for assessing whether T-Mobile Hrvatska d.o.o. and HT-Hrvatske telekomunikacije d.d. (HT) abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007 CCA brought decision stating that T-Mobile Hrvatska d.o.o. and HT abused their dominant position by conclusion of the Frame Agreements. CCA ordered modification of some provisions in several of the analyzed Frame Agreements. The Agency's request has been fulfilled. However, the Company also used the right to challenge the decision before the Administrative court.

In the decision CCA, inter alia, stated that it would initiate proceedings before the Misdemeanour Court against the Company and HT for determining whether the misdemeanour occurred and, if yes, for assessing penalty. Misdemeanour proceedings have been initiated. The Company submitted first memo containing written defence.

On 10th November 2009 hearing at Misdemeanour Court was held, where written statements of defence were read. The plaintiff was ordered by the Court to submit data regarding total turnover of HT/T-Mobile from 2002-2006 and data on market shares of HT/T-Mobile acquired on relevant markets. A new hearing has not been scheduled yet.

The penalty for violations of the Law on Protection of Market Competition could amount up to 10% of the annual Company's turnover of the financial year proceeding the year in which the infringement was committed. At the year end the Company was not able to determine the likelihood of the possible outcome and the amount of possible outflow, so no provision for any liability has been made in these financial statements.

Notwithstanding the CCA proceeding, Agency initiated the proceeding regarding compliance of prices in Frame agreements with Telecommunication Law. Agency requested from HT and T-Mobile to submit copies of mentioned Frame Agreements, their appendixes, individual customer contracts and extracts from related price-lists. Mentioned proceeding is still pending. The Company was not able to determine the likelihood of the possible outcome and the amount of possible outflow, so no provision for any liability has been made in these in these financial statements.

24 Financial risk management objectives and policies

The Company was exposed to international, commodity-based markets. As a result, it could have been affected by changes in foreign exchange rates and interest rates. The Company also extended credit terms to its customers and was exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Company did not use derivative instruments either to manage risk or for speculative purposes. The Company believed that possible changes in interest rates, foreign exchange rates and fair values of available-for sale financial assets could not have significant effect on financial statements.

a) Credit risk

The Company did not have a significant concentration of credit risk with any single counterparty or group of counter parties having similar characteristics. Procedures were in force to ensure on a permanent basis that sales were made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Company did not guarantee obligations of other parties.

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

The maximum exposure to credit risk was represented by the carrying amount of each financial asset in the balance sheet. Therefore, the Company considered that its maximum exposure was reflected in the amount of receivables for cash on bank accounts, deposits in banks, financial assets available for sale and trade receivables (see note 15) less value adjustment which was recognized on the balance sheet date.

b) Liquidity risk

The Company policy was to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet its commitments in the foreseeable future.
Any excess cash was invested mostly in available-for-sale investments.

Following table displays liabilities structure according to maturity:

Trade and other payables all amounts in HRK million	Non due	0-30 days	31-60 days	61 - 90 days	91 – 120 days	> 120 days	Total
Year ended 31 December 2009	413	275	3	37	3	4	735
Year ended 31 December 2008 (restated)	598	121	15	31	2	7	774

c) Interest rate risk

The Company's exposure to the risk of changes in market interest rates related primarily to the Company's cash deposits in banks.

24 Financial risk management objectives and policies *continued*

d) Interest rate risk sensitivity

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

	Increase/decrease in base points	Effect on profit before tax
		HRK million
2009		
Croatian kuna	+100	17
	-100	(17)
Euro	+100	3
	-100	(3)
2008		
Croatian kuna	+100	15
	-100	(15)
Euro	+100	2
	-100	(2)

e) Foreign currency risk

The Company's functional currency was the HRK. Certain assets and liabilities were denominated in foreign currencies which were retranslated at the prevailing exchange rate at each balance sheet date. The resulting differences were charged or credited to the income statement but did not affect short-term cash flows.

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

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

	Increase/decrease in Euro rate HRK million	Effect on profit before tax HRK million
2009	+3%	10
	-3%	(10)
2008	+3%	6
	-3%	(6)

24 Financial risk management objectives and policies *continued*

f) Fair value estimation

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

g) Capital management

The Company's objectives when managing capital were:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for the owner and benefits for other stakeholders; and
- to provide an adequate return to the owner by pricing products and services commensurately with the level of risk.

The Company managed its capital structure and made adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

	2009 HRK million	Restated 2008 HRK million
Trade and other payables (Note 17)	735	774
Less cash and cash equivalents (Note 27)	(2,462)	(1,586)
Net debt	(1,727)	(812)
Equity	4,100	2,936
Total capital	4,100	2,936
Capital and net debt	**2,373**	**2,124**

25 Concession Arrangements

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

Pursuant to this Agreement, the Company had the right to develop and operate telecommunications services with usage of radio frequency spectrum in the global mobile network system – GSM until February 18, 2009.

Initial Concession duration as defined in this Agreement was 10 years starting on September 16, 1999. Whereas the Agency issued a certificate confirming the submission of the prior notification in accordance with the Electronic Communications Act (ECA) provisions, this Agreement ceased to be valid on February 18, 2009.

Following above mentioned the Company is now entitled to provide services and perform its rights based on general authorisation and licenses for use of the radio frequencies.

25 Concession Arrangements *continued*

In addition to the initial concession fee paid in amount of HRK 100 million, the Company paid an annual concession fee of HRK 5 million for the GSM Concession in each year until year 2008. For the last year of this Agreement validity, in December 2008 Agency issued the invoice for the concession fee, with the amount which was considerably higher than the one which was defined by the Agreement, i.e. the amount was 19,568,724,18 HRK, stating the amendment to the relevant bylaw as the reason for doing so and proposing an Annex to the Agreement which would verify the change of the concession fee. The company refused to sign proposed annex and paid the undisputable part of the bill - 5 million HRK. On January 16th 2009, Financial police has initiated financial control of regularity of the Company's payments and calculations of the concession fees for GSM and UMTS concessions for period January 1st 2005 until December 31st 2008. The Company filed a complaint on Minutes of findings of financial control. On June 30th 2009 the Company has received the decision by Financial police by which the Company is ordered to pay the rest of the disputed invoice in amount of 14.568.724,18 HRK, as well as the legal penalties. On July 20th 2009 the Company has paid the rest of the disputed invoice in the amount of 14.568.724,18 HRK and then on July 27th 2009 the legal penalties. Regardless of afore-mentioned, the Company has appealed against the Financial police decision on July 30th 2009 and that appeal was rejected by the decision of the Ministry of Finance. On November 25th, 2009 the Company submitted administrative suit against this decision and initialized administrative dispute before the Administrative Court.
On January 1, 2009 new ordinances entered into force, regulating new fees structure and amounts for the usage of frequency and numbering resources and for financing Agency's other tasks and they are applicable on the Company starting on that date. As per new method of calculation, the fee for the right of radio spectrum usage has been considerably increased; it covers the usage of unpaired radio spectrum 1MHz bandwidth, using the formula in which the parameters are spectrum price unit, spectrum congestion coefficient and population coverage coefficient. Furthermore, for each year of radio spectrum usage, a licence fee is paid, amounting 50.000.000 HRK in the first year of the new licence, or respectively 0.5% of total annual revenue in second and every other year of the licence validity. The annual fee per one mobile radio station subscriber is 120 HRK per year. The radio spectrum usage fee which is paid to Agency amounts 241,809.00 HRK per MHz and the fee for carrying out the other tasks of the Agency is 0.32% of total annual revenue.

Licences for the use of radio frequency in GSM system issued based on the old Telecommunications Act continued to be valid until September 16, 2009 but on March 3, 2009 the Agency passed the decision on harmonization of the conditions for assignment and use of radio frequencies in the licences in accordance with the provisions of the ECA.

Before the expiration of the above-mentioned licences, in accordance with the provision of ECA, the Company submitted a request for issuing of new licence for the use of radio spectrum, and after public discussion has been performed, the Agency issued the new technological neutral licence for the use of radio spectrum for the period from September 17, 2009 to October 18, 2024.

Based on the licences for the use of radio frequencies the Company is obliged to ensure the coverage of at least 95% of the population of the Republic of Croatia and at least 75% of the territory of the Republic of Croatia.

b) Concession Agreement for frequencies for provision of public telecommunications services with the usage of radio frequency spectrum in third generation mobile network system UMTS

Pursuant to this Agreement, the Company had the right to develop and use public mobile telecommunications network and to operate public telecommunications services in the third generation system UMTS on the territory of the Republic of Croatia until February 18, 2009.

25 Concession Arrangements *continued*

Initial Concession duration as defined in this Agreement was 20 years starting from October 18, 2004. Whereas the: Agency issued a certificate confirming the submission of the prior notification in accordance with the ECA provisions this Agreement ceased to be valid on February 18, 2009.

Following that the Company is now entitled to provide services and perform its rights based on general authorisation and license for use of the radio frequencies spectrum.

Following initial concession fee paid in amount of HRK 132 million, the Company paid annual concession fee of 1% of total revenues realised in UMTS mobile network in the period between 2005 and 2007. In December 2008 Agency issued the invoice for the fifth year of this Agreement validity, decreased in accordance with the amendment to the relevant bylaw, so the Company paid the amount of 0.5% of total annual revenue realised in UMTS network. The Company also had to pay until end of year 2008 the annual radiofrequency fee of HRK 5 million per one assigned frequency block of 5 MHz in UMTS network (altogether 4 blocks).
The secondary legislation that has been mentioned in regard to GSM concession by which the new fees structure and amounts were prescribed, applies in the same manner to UMTS network usage.
Licences for the use of radio frequency in UMTS system issued based on the old Telecommunications Act continued to be valid until October 18, 2024, but on March 3, 2009 the Agency passed the decision on harmonization of the conditions for assignment and use of radio frequencies defined in the licences in accordance with the provisions of the ECA.

Based on the licence for the use of radio frequencies the Company is obliged to ensure coverage of at least 50% of the population of the Republic of Croatia in the period of 5 years from the grant of the concession.

26 Time deposits

Time deposits for the periods longer than 3 months related to two deposits in Zagrebačka banka in total amount of HRK 2 million (2008: HRK 2 million).

27 Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprised of cash on hand and balances with banks in the amount of HRK 2,462 million (2008: 1,586 million).

Cash and cash equivalents relate to the time deposits and giro accounts whose breakdown is as follows:

	31 December 2009	31 December 2008
	HRK million	HRK million
Short term deposits	2,050	1,572
Giro accounts	214	14
Central Depository and Clearing Company (Treasury bills)	198	-
Cash and cash equivalents	2,462	1,586

99% of the total amount of cash and deposits is held in 3 main banks in Croatia – Zagrebačka banka, Privredna banka and Splitska banka.

Interest rates on foreign currency deposits range from 1.00% to 8.15% and on deposits in domestic currency range from 0.50% to 32.00%.

28 Related parties

The Company’s sole shareholder was HT (100%).

Related parties to Company’s parent company are related parties of the Company.

The sales to and purchases from related parties were made on an arm’s length basis and were subject to volume discounts. Outstanding balances at the year end were unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2009 and 2008 the Company has not made any provision for doubtful debts relating to amounts owed by related parties. This assessment was undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

28 Related parties *continued*

Operational transactions with related parties were as follows:

Related parties:	Revenue from related parties 2009 HRK million	Revenue from related parties 2008 HRK million	Receivables from related parties 2009 HRK million	Receivables from related parties 2008 HRK million
HT Hrvatske telekomunikacije d.d.	374	469	52	128
T- Mobile Deutschland	27	27	3	3
HT d.o.o. Mostar, Bosnia and Herzegovina	16	18	3	11
T- Mobile Austria	9	12	8	2
T- Mobile Czech Republic	7	6	2	2
Magyar Telekom Plc	6	7	1	1
Telekom Srbija	5	-	4	-
ERA PTC Poland	4	10	-	1
T- Mobile Slovensko	3	3	1	1
Iskon Internet d.d.	3	4	1	1
T-Mobile Macedonia	2	2	-	-
T- Mobile Netherlands (NLDPN)	1	-	1	1
T- Mobile USA	1	1	1	1
T- Mobile Montenegro	1	-	1	1
T-Mobile Netherlands (NLDDT)	1	2	-	1
Cosmo Bulgaria Mobile EAD	1	-	-	-
Cosmote–Mobile Telecommunications S.A.	1	-	-	-
T- Mobile UK	-	2	1	1
Deutsche Telekom	-	-	-	-
T- Mobile International AG	-	-	-	-
T- Systems GEI GmbH	-	-	-	-
T- Systems Enterprise Services GmbH	-	-	-	-
T- Mobile International UK Limited	-	-	-	-
Danet GmbH	-	-	-	-
Albanian Mobile Communications Sh.a	-	-	-	-
Detecon	-	-	-	-
Cosmote Romanian mobile Telecommunications NS S.A.	-	-	-	-
	462	563	79	155

28 Related parties *continued*

Related parties:	Expenses from related parties 2009	Expenses from related parties 2008	Payables to related parties 2009	Payables to related parties 2008
	HRK million	HRK million	HRK million	HRK million
HT Hrvatske telekomunikacije d.d.	441	452	86	68
HT d.o.o. Mostar, Bosnia and Herzegovina	17	16	4	9
T- Mobile Deutschland	14	17	44	41
T- Systems Enterprise Services GmbH	11	1	-	-
Deutsche Telekom AG	10	24	-	-
T- Mobile Austria	7	6	21	22
Iskon Internet d.d.	5	-	-	-
T- Mobile International AG	4	4	1	-
T-Mobile Macedonia AD	2	1	1	1
T- Mobile International UK Limited	2	4	-	-
Telekom Srbija	2	-	5	-
T- Mobile Czech Republic	1	1	12	12
Magyar Telekom	1	1	12	12
T- Mobile USA	1	1	1	3
T- Mobile Netherlands (NLDPN)	1	-	5	4
T- Mobile Montenegro	1	1	1	1
Detecon	1	-	-	-
ERA PTC Poland	-	1	9	8
T- Mobile Slovensko	-	-	8	7
T- Mobile UK Ltd	-	1	2	2
T_System GEI GmbH	-	-	-	-
Danet GmbH	-	-	-	-
T-Mobile Netherlands (NLDDT)	-	-	-	-
Albanian Mobile Communications Sh.a	-	-	-	-
Cosmo Bulgaria Mobile EAD	-	-	-	-
Cosmote – Mobile Telecommunications	-	-	-	-
Cosmote Romanian mobile Telecommunications NS S.A.	-	-	-	-
	521	531	212	190

Albanian Mobile Communications Sh.a, Cosmo Bulgaria Mobile EAD, Cosmote – Mobile Telecommunications NS and Cosmote Romanian mobile Telecommunications NS S.A.are members of OTE Group, which became related party in May 2008.

Compensation of key management personnel

In 2009 total compensation paid to key management personnel of the Company amounts to HRK 8 million (2008: HRK 9 million). Compensation paid to key management personnel relate to short-term employee benefits. Key management personnel include members of the Management Board and directors.

29 Subsequent events

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.

30 Auditors' fees

The auditor of the Company's financial statements, Ernst & Young, has rendered services of HRK 1.8 million in 2009 (2008: HRK 1.3 million). Services in 2009 and 2008 relate to the audit and review of the financial statements.