Hrvatski Telekom d.d.

Financial statements

31 December 2010

Contents

General information

Supervisory Board

The members of the Supervisory Board who served during 2010 and subsequently are as follows:

Guido Kerkhoff	Chairman	Member from 21 April 2009 Chairman from 4 May 2009
Ivica Mišetić, Ph.D.	Deputy chairman	Member from 21 April 2008 Deputy chairman from 8 May 2008
Steffen Roehn	Member	From 21 April 2009
Fridbert Gerlach	Member	Until 21 April 2010
Siegfried Pleiner	Member	Until 21 April 2010
Dr. Lutz Schade	Member	From 21 April 2010
Andreas Hesse	Member	From 21 April 2010
Dr. Ralph Rentschler	Member	From 15 December 2003
Kathryn Walt Hall	Member	From 21 April 2008
Slavko Leban	Member	From 21 April 2008
Josip Pupić	Member, workers' representative	Until 31 December 2010
Juko Cikojević	Member, workers' representative	From 1 January 2011

Management Board

The members of the Management Board who served during 2010 and subsequently are as follows:

Ivica Mudrinić	President	From 1 January 1999
Jürgen P. Czapran	Member	From 12 February 2007
Božidar Poldrugač	Member	From 15 March 2007
Irena Jolić Šimović	Member	From 1 August 2006
Johan Busé	Member	From 1 April 2010
Branka Skaramuča	Member	From 1 October 2008

General information (continued)

Responsibility for the financial statements

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

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

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

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

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

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

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

7 February 2011

On behalf of the Company,

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb
P

Ivica Mudrinić
President of the Management Board

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Independent Auditor's Report

To the Shareholders of Hrvatski Telekom d.d.:

We have audited the accompanying financial statements ("the financial statements") of Hrvatski Telekom d.d. ("HT d.d.", or "HT") which comprise a Statement of financial position as at 31 December 2010, a Statement of comprehensive income, a Statement of changes in equity, a Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 6 to 57).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ERNST & YOUNG

Independent Auditor's Report (continued)

Emphasis of Matter

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

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

As explained in more detail in Note 10, part of HT's assets (including the ducts as part of infrastructure) does not have all the necessary documents (building, use permits, etc.) and a major part is not registered in the land registry. In addition, some claims of ownership over these assets have been made by local authorities, which is explained in more detail in Note 27 c). The outcome of these matters is uncertain and may have a material effect on HT.

Competition / Regulatory matters

As explained in more detail in Note 27 a), there have been several complaints made by HT's competitors to the Croatian Competition Agency and the Croatian Post and Electronic Communications Agency (HAKOM) in regard to HT's alleged abuse of its dominant position or alleged violation of regulatory obligations, and there were several supervisions performed by HAKOM on HT in accordance with HAKOM's decisions and regulatory obligations. The outcome of these matters is uncertain and may have a material effect on HT.

Consumer Act claims

As explained in more detail in Note 27 b), HT is involved in legal proceedings related to the alleged breach of the Consumer Protection Act in regard to the method of charging voice services and in regard to the monthly access charges. The claimants are residential customers of HT together with the consumer protection association. The outcome of these matters is uncertain and may have a material effect on HT.

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

Ernst & Young d.o.o.

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

Slaven Đuroković
Certified Accountant and director

7 February 2011

Statement of comprehensive income
For the year ended 31 December 2010

	Notes	2010 HRK millions	2009 HRK millions
Rendering of services		7,914	4,798
Sale of goods		97	155
Revenue	3	8,011	4,953
Other operating income		230	175
Merchandise, material and energy expenses		(873)	(505)
Service expenses	4	(1,236)	(977)
Employee benefits expenses		(1,113)	(1,028)
Gross salaries		(829)	(663)
Taxes, contributions and other payroll costs		(248)	(206)
Redundancy expenses	6	(31)	(148)
Other long-term employee benefits	19	(5)	(11)
Work performed by the Company and capitalised		103	140
Depreciation and amortisation	5	(1,301)	(879)
Impairment of non-current assets	5	(65)	(3)
Write down of current assets		(109)	(42)
Other expenses	7	(1,379)	(847)
Total operating costs		(5,973)	(4,141)
Operating profit		2,268	987
Interest income		79	177
Financial expense		(48)	(33)
Income from investment in joint venture		6	4
Profit before taxes		2,305	1,135
Taxation	8	(441)	(239)
Profit for the year		1,864	896
Other comprehensive income			
Valuation gains/(losses) from available for sale financial assets	14	2	(2)
Other		(3)	6
Other comprehensive income for the year, net of tax		(1)	4
Total comprehensive income for the year, net of tax		1,863	900

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

Statement of financial position
As at 31 December 2010

	Notes	31 December 2010 HRK millions	31 December 2009 HRK millions
ASSETS			
Non-current assets			
Intangible assets	9	924	426
Property, plant and equipment	10	6,236	5,322
Investment in subsidiaries	11	291	1,580
Investment in associate	12	2	2
Investment in joint venture	13	335	335
Available-for-sale investments	14	42	32
Non-current loans given to subsidiary		277	227
Non-current receivables		31	32
Deferred tax asset	8	57	31
Total non-current assets		8,195	7,987
Current assets			
Inventories	15	203	193
Trade and other receivables	16	1,362	811
Receivables from subsidiaries		22	103
Prepayments and accrued income		96	19
Income tax prepayments		23	45
Available-for-sale investments	14	443	146
Time deposits	17 b)	2	1
Cash and cash equivalents	17 a)	3,245	1,713
Total current assets		5,396	3,031
TOTAL ASSETS		13,591	11,018

Statement of financial position (continued)
As at 31 December 2010

	Notes	31 December 2010 HRK millions	31 December 2009 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Issued capital	22	8,189	8,189
Legal reserves	23	409	409
Fair value reserves		(1)	(3)
Retained earnings	24	2,601	903
Total Issued capital and reserves		11,198	9,498
Non-current liabilities			
Provisions for legal cases and other provisions	21	101	94
Provisions for redundancy	6	-	113
Employee benefit obligations	19	192	168
Deferred income	20	74	102
Other long-term liabilities		30	20
Total non-current liabilities		397	497
Current liabilities			
Trade and other payables	18	1,404	790
Provisions for redundancy	6	133	7
Other accruals	25	194	104
Payables to subsidiaries		20	53
Deferred income	20	245	69
Total current liabilities		1,996	1,023
Total liabilities		2,393	1,520
TOTAL EQUITY AND LIABILITIES		13,591	11,018

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

Signed on behalf of HT d.d. on 7 February 2011.

Hrvatski Telekom
Hrvatski Telekom d.d.
Zagreb
P

Ivica Mudrinić

Jürgen P. Czapran

Statement of cash flows
For the year ended 31 December 2010

	Notes	2010 HRK millions	2009 HRK millions
Operating activities			
Net profit		1,864	896
Depreciation charges	5	1,301	879
Impairment loss of non-current assets	5	65	3
Income tax expense	8	441	239
Interest income		(49)	(143)
Loss/(gain) on disposal of assets		2	(6)
Loss from investment in joint venture		(6)	(4)
(Increase)/decrease in inventories		(10)	19
Increase in receivables and prepayments		(574)	(61)
Increase/(decrease) in payables and accruals		663	(228)
Increase in employee benefit obligations	19	24	2
Interest paid		-	(6)
Increase/(decrease) in provisions		7	(9)
Value adjustment of inventories		1	-
Other non-cash items		(1)	(3)
Taxes paid		(463)	(234)
Net cash flows from operating activities		3,265	1,344
Investing activities			
Purchase of non-current assets	9,10	(1,105)	(1,041)
Proceeds from sale of non-current assets		12	24
Purchase of non-current financial assets		(108)	-
Proceeds from sale of non-current financial assets		-	2
Purchase of current financial assets		(696)	(146)
Proceeds from sale of current financial assets		687	254
Interest received		34	160
Purchase of subsidiary		(189)	-
Non-current loans given to subsidiary		(50)	(54)
Dividend received		6	4
Net cash flows used in investing activities		(1,409)	(797)
Financing activities			
Dividends paid	24	(2,788)	(2,456)
Net cash flows used in financing activities		(2,788)	(2,456)
Net decrease in cash and cash equivalents		(932)	(1,909)
Effect of foreign exchange rate changes on cash and cash equivalents		2	2
Cash and cash equivalents at 1 January		1,713	3,620
Merging of subsidiary	11	2,462	-
Cash and cash equivalents at 31 December	17 a)	3,245	1,713

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

Statement of changes in equity
For the year ended 31 December 2010

	Issued capital HRK millions (Note 22)	Legal reserves HRK millions (Note 23)	Fair value reserves HRK millions	Retained earnings HRK millions (Note 24)	Total HRK millions
Balance as at 1 January 2009	8,189	409	(1)	2,458	11,055
Paid dividends	-	-	-	(2,456)	(2,456)
Profit for the year	-	-	-	896	896
Other comprehensive income	-	-	(2)	5	3
Balance as at 31 December 2009	8,189	409	(3)	903	9,498
Merging of subsidiary	-	-	-	2,625	2,625
Balance as at 1 January 2010	8,189	409	(3)	3,528	12,123
Paid dividends	-	-	-	(2,788)	(2,788)
Profit for the year	-	-	-	1,864	1,864
Other comprehensive income	-	-	2	(3)	(1)
Balance as at 31 December 2010	8,189	409	(1)	2,601	11,198

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

1 Corporate information

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

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

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

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

The total number of employees of the Company as at 31 December 2010 was 6,028 (31 December 2009: 4,894).

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

2.1. Basis of preparation

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

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value (Note 14), as disclosed in the accounting policies hereafter.

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

2.2. Changes in accounting policies and disclosures

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

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

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

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the 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. On 28 October 2010 the IASB issued amendments to IFRS 9 to address the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. This completed the first phase of the Board's project to replace IAS 39. In the subsequent phases, the IASB will address impairment methodology and hedge accounting. The completion of this project is expected in 2011. The Company does not expect IFRS 9 to have an impact on the financial statements. The Company plans to adopt this new standard on its effective date.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

2.2. Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

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

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

IAS 12 – Income Taxes

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

IFRS 7

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

Improvements to IFRSs (issued in May 2010)

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

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

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

2.3. Significant accounting judgments, estimates and assumptions

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

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. The key assumptions take into consideration the probability of meeting each performance target. In relation to acquisition of Combis d.o.o. (Note 11) based on the business plan, the projected results are insufficient to recognise contingent consideration.

Provisions and contingencies

The Company is exposed to a number of legal cases and regulatory proceedings that may result in significant outflow of economic resources. The Company uses internal and external legal experts to assess outcome of each case and makes judgments if and what amount needs to be provided for in the financial statements as more explained in Notes 21 and 27.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next ten years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Further details including carrying values and effects on the result of the year are given in Notes 9 and 10.

Revenue recognition – T-Club loyalty program

The Company estimates the fair value of points awarded under the T-Club program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As at 31 December 2010, the estimated liability for unredeemed points was approximately HRK 95 million (31 December 2009: HRK 32 million) (Note 20).

2.4. Summary of accounting policies

a) Operating profit

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

b) Intangible assets

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

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

Useful life of intangible assets is as follows:

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

c) Property, plant and equipment

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

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

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

Depreciation is computed on a straight-line basis.

2.4. Summary of accounting policies (continued)

c) Property, plant and equipment (continued)

The useful life of newly acquired assets is as follows:

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

Land is not depreciated.

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

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

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

d) Impairment of assets

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

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

2.4. Summary of accounting policies (continued)

e) Inventories

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

f) Receivables

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

g) Foreign currencies

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

h) Operating leases

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

i) Taxation

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

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

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

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

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

2.4. Summary of accounting policies (continued)

j) Employee benefit obligations

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

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

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

k) Revenue recognition

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

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

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

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

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

2.4. Summary of accounting policies (continued)

k) Revenue recognition (continued)

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

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

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

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

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

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

l) Cash and cash equivalents

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

m) Borrowings

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

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

2.4. Summary of accounting policies (continued)

n) Investments

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

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

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

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

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

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

o) Provisions

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

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

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

2.4. Summary of accounting policies (continued)

p) Contingencies

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

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

q) Share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 32. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each statement of financial position date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

r) Events after reporting period

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

3 Revenue

a) Revenue by business

	2010 HRK millions	2009 HRK millions
Mobile telephony	3,539	-
Fixed telephony	2,290	2,506
Internet services	1,204	1,026
Wholesale services	731	1,083
Data services	150	183
Merchandise	97	155
	8,011	4,953

b) Revenue by geographical area

	2010 HRK millions	2009 HRK millions
Republic of Croatia	7,338	4,593
Rest of the World	673	360
	8,011	4,953

4 Service expenses

	2010 HRK millions	2009 HRK millions
Domestic interconnection	519	430
International interconnection	451	308
Other services	266	239
	1,236	977

5 Depreciation, amortisation and impairment of non-current assets

	2010 HRK millions	2009 HRK millions
Depreciation	976	716
Amortisation	325	163
	1,301	879
Impairment loss	65	3
	1,366	882

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

6 Redundancy expenses

	2010 HRK millions	2009 HRK millions
Provision at 1 January – current	7	139
Provision at 1 January - non current	113	-
Total provision for redundancy 1 January	120	139
Interest costs recognised in the statement of comprehensive income	20	-
Additions charged to the statement of comprehensive income	31	148
Utilisation	(38)	(167)
Total provision for redundancy 31 December	133	120
Of that – current	133	7
Of that – non current	-	113

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

7 Other expenses

	2010 HRK millions	2009 HRK millions
Maintenance services	358	285
Advertising	183	105
Rent (Note 26)	156	71
Licence cost	150	30
Selling commission	135	30
Postal expenses	101	83
Non – income taxes & contribution	59	44
Call centre and customer care support	50	30
Contract workers	42	24
Education and consulting	22	33
Daily allowances and other costs of business trips	20	17
Insurance	13	12
Provision for charges and risks	16	10
Loss on disposal of fixed assets	4	4
Other operating charges	70	69
	1,379	847

8 Taxation

a) Tax on profit

	2010 HRK millions	2009 HRK millions
Current tax expense	452	230
Deferred tax expense	(11)	9
Taxation	441	239

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

	2010 HRK millions	2009 HRK millions
Profit before taxes	2,305	1,135
Income tax at 20% (domestic rate)	461	227
Tax effects of not taxable income:		
Dividends received and incentives	(2)	(2)
Related to provision for bad debts and value adjustment	(18)	(7)
Revenues taxed in previous years	(4)	(4)
Lower depreciation	(4)	(5)
Other	(1)	(6)
Tax effects of expenses not deductible in determining taxable profits:		
Tax for previous years	(12)	10
Provision for bad debt, value adjustment and accruals	24	7
Entertainment expenses and car usage	4	3
Other	4	7
Deferred tax expense	(11)	9
Taxation	441	239
Effective tax rate	19.13%	21.05%

8 Taxation (continued)

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

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

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

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

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

9 Intangible assets

	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2009	58	910	81	51	1,100
Additions	-	79	12	64	155
Transfers	-	57	4	(61)	-
Transfers from property, plant and equipment	-	38	-	-	38
Disposals	(1)	(9)	-	-	(10)
At 31 December 2009	57	1,075	97	54	1,283
Merging of subsidiary	619	714	14	34	1,381
At 1 January 2010	676	1,789	111	88	2,664
Additions	6	144	4	90	244
Transfers	(399)	516	(7)	(110)	-
Transfers from property, plant and equipment	-	35	-	-	35
Disposals	(2)	(2)	-	-	(4)
At 31 December 2010	281	2,482	108	68	2,939
Accumulated amortisation					
At 1 January 2009	49	596	21	-	666
Charge for the year	4	144	15	-	163
Transfers from property, plant and equipment	-	38	-	-	38
Disposals	(1)	(9)	-	-	(10)
At 31 December 2009	52	769	36	-	857
Merging of a subsidiary	366	427	9	-	802
At 1 January 2010	418	1,196	45	-	1,659
Charge for the year	45	262	18	-	325
Transfers from property, plant and equipment	-	35	-	-	35
Transfers	(318)	326	(8)	-	-
Disposals	(2)	(2)	-	-	(4)
At 31 December 2010	143	1,817	55	-	2,015
Net book value					
At 31 December 2009	5	306	61	54	426
At 31 December 2010	138	665	53	68	924

9 Intangible assets (continued)

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

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

Additions of intangible assets

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

10 Property, plant and equipment

	Land and and buildings	Telecom plant and machinery	Tools, vehicles IT and office equipment	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Cost					
At 1 January 2009	1,222	7,680	897	670	10,469
Additions	30	569	41	246	886
Transfers	55	393	45	(493)	-
Transfers to intangible assets	-	(38)	-	-	(38)
Disposals	(3)	(8)	(55)	(11)	(77)
At 31 December 2009	1,304	8,596	928	412	11,240
Merging of a subsidiary	634	2,383	61	59	3,137
At 1 January 2010	1,938	10,979	989	471	14,377
Additions	62	509	47	243	861
Transfers	100	22	187	(309)	-
Transfers to intangible assets	-	(35)	-	-	(35)
Disposals	(2)	(283)	(62)	(7)	(354)
At 31 December 2010	2,098	11,192	1,161	398	14,849
Accumulated depreciation					
At 1 January 2009	548	4,154	589	5	5,296
Charge for the year	45	575	96	-	716
Transfers to intangible assets	-	(38)	-	-	(38)
Impairment loss	-	-	3	-	3
Disposals	(2)	(6)	(50)	(1)	(59)
At 31 December 2009	591	4,685	638	4	5,918
Merging of a subsidiary	228	1,769	35	-	2,032
At 1 January 2010	819	6,454	673	4	7,950
Charge for the year	103	749	124	-	976
Transfers to intangible assets	-	(35)	-	-	(35)
Transfers	-	(103)	103	-	-
Impairment loss	-	46	4	15	65
Disposals	(1)	(279)	(59)	(4)	(343)
At 31 December 2010	921	6,832	845	15	8,613
Net book value					
At 31 December 2009	713	3,911	290	408	5,322
At 31 December 2010	1,177	4,360	316	383	6,236

10 Property, plant and equipment (continued)

Included within assets under construction of the Company are major spare parts of HRK 53 million (31 December 2009: HRK 18 million), net of a provision of HRK 10 million (31 December 2009: HRK 4 million).

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

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

Impairment loss

In 2010, the Company recognised an impairment loss of property, plant and equipment of HRK 65 million (2009: HRK 3 million) due to transfer to the newer technology. The recoverable amount of that equipment is its fair value less costs to sell, which is based on the best information available to reflect the amount that the Company could obtain, at the statement of financial position date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Disposal of property, plant and equipment

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

Ownership over ducts

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

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

10 Property, plant and equipment (continued)

Ownership over ducts (continued)

Negotiations regarding conclusion "right of servitude" contracts with Koprivnica, Osijek (remaining part) and Zagreb are expected to be finished during 2011. HT has also concluded "right of use" contracts with the state owned companies Croatian Roads (for all of roads under their management) and with County Roads (19 of 20 counties).

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

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

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

In accordance with these Ordinances the Agency started issuing certificates for the rights of way for certain routes in the city of Zagreb to HT. The Company believes that the issued certificates for the rights of way might help HT in the lawsuit filed by Zagrebački Holding Zagrebački Digitalni Grad (ZHZDG)(Note 27).

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

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

10 Property, plant and equipment (continued)

Ownership over ducts (continued)

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

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

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

11 Investment in subsidiaries

The net book value of investments in subsidiaries comprises:

	31 December 2010 HRK millions	31 December 2009 HRK millions
Combis d.o.o.	189	-
Iskon Internet d.d.	99	99
KDS d.o.o.	3	3
T Mobile Hrvatska d.o.o.	-	1,478
	291	1,580

Hrvatski Telekom d.d. has the following subsidiaries in the Republic of Croatia:

Company	Country of Business	Principal Activities	Ownership Interest
Combis d.o.o.	Republic of Croatia	Provision of IT services	100%
Iskon Internet d.d.	Republic of Croatia	Provision of Internet and data services	100%
KDS d.o.o.	Republic of Croatia	Provision of cable TV services	100%

11 Investment in subsidiaries (continued)

Merger of T-Mobile

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

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

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

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

Acquisition of Combis

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

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

12 Investment in associate

The net book value of investments in associate comprises:

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

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

13 Investment in joint venture

The net book value of investments in joint venture comprises:

	31 December 2010 HRK millions	31 December 2009 HRK millions
HT d.d. Mostar	335	335
	335	335

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

14 Available-for-sale investments

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

Issuer	*Currency*	*Interest rate*	*Maturity*	31 December 2010 HRK millions	31 December 2009 HRK millions
Government of Croatia	HRK	4.75%	8 February 2017	32	23
Other equity securities	HRK			10	9
				42	32

Current available-for-sale investments include the following:

				31 December 2010 HRK millions	31 December 2009 HRK millions
Bonds:					
Government of Germany	EUR	1.25%	11 March 2011	74	-
Government of France	EUR	3.00%	12 January 2010	-	36
Government of the Netherlands	EUR	3.00%	15 January 2010	-	37
Foreign treasury bills:					
Government of France	EUR	1.00%	21 April 2011	96	-
Government of France	EUR	1.00%	24 March 2011	74	-
Government of France	EUR	1.00%	19 May 2011	88	-
Government of France	EUR	1.00%	5 May 2011	37	-
Government of Germany	EUR	1.00%	23 February 2011	37	-
Government of Germany	EUR	1.00%	11 May 2011	37	-
Government of Germany	EUR	1.00%	12 May 2010	-	73
				443	146

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

15 Inventories

	31 December 2010 HRK millions	31 December 2009 HRK millions
Inventories and spare parts	102	134
Merchandise	101	59
	203	193

16 Trade and other receivables

	31 December 2010 HRK millions	31 December 2009 HRK millions
Trade receivables	1,307	739
Other receivables	55	72
	1,362	811

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	31-60 days	61-90 days	91-120 days	>120 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
31 December 2010	1,3077	826	278	97	36	22	48
31 December 2009	739	499	140	53	26	11	10

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

As at 31 December 2010, trade receivables with a nominal value of HRK 1,019 million (31 December 2009: HRK 446 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2010 HRK millions	2009 HRK millions
At 1 January	446	449
Merger of a subsidiary	500	-
At 1 January after the merger	946	449
Charge for the year	202	94
Unused amounts reversed	(129)	(97)
At 31 December	1,019	446

17 Cash and cash equivalents and time deposits

a) Cash and cash equivalents

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

	31 December 2010 HRK millions	31 December 2009 HRK millions
Cash on hand and balances with banks	472	455
Time deposits with maturity less than 3 months	2,773	1,258
Cash and cash equivalents	3,245	1,713

b) Time deposits with maturities more than 3 months

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

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

	31 December 2010 HRK millions	31 December 2009 HRK millions
HRK	2,654	1,213
EUR	557	468
USD	34	33
	3,245	1,714

18 Trade and other payables

	31 December 2010 HRK millions	31 December 2009 HRK millions
Trade payables	1,280	725
Payroll and payroll taxes	68	52
VAT and other taxes payable	43	11
Other creditors	13	2
	1,404	790

19 Employee benefit obligations

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

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

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

	2010 HRK millions	2009 HRK millions
At 1 January	168	166
Merger of a subsidiary	24	-
At 1 January after the merger	192	166
Service costs recognised in the statement of comprehensive income	5	11
Interest costs recognised in the statement of comprehensive income	12	11
Payments made under scheme	(15)	(13)
Actuarial gains	(2)	(7)
At 31 December	192	168

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

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

20 Deferred income

	31 December 2010 HRK millions	31 December 2009 HRK millions
Connection fee	74	102
Deferred income – non current	74	102
Prepaid vouchers	97	-
Customer loyalty programme	95	32
Connection fee	32	33
Other	21	4
Deferred income – current	245	69
	319	171

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

21 Provisions for legal cases and other provisions

	2010 HRK millions	2009 HRK millions
At 1 January	94	84
Merger of a subsidiary	22	-
At 1 January after the merger	116	84
Additions	3	10
Reversal	(3)	-
Utilisation	(15)	-
At 31 December	101	94

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

22 Issued capital

Authorised, issued, fully paid and registered share capital

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

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

23 Legal reserves

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

24 Retained earnings

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

25 Other accruals

	31 December 2010 HRK millions	31 December 2009 HRK millions
Variable salary to employees	90	74
Handset budget programme	63	-
Unused vacation	37	28
Other	4	2
	194	104

26 Commitments

a) Operating lease commitments

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

Operating lease charges:

	2010 HRK millions	2009 HRK millions
Current year expense (Note 7)	156	71

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

	31 December 2010 HRK millions	31 December 2009 HRK millions
Within one year	103	52
Between 2 and 5 years	348	179
Greater than 5 years	302	125
	753	356

The contracts relate primarily to property leases and car leases.

b) Capital commitments

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

	31 December 2010 HRK millions	31 December 2009 HRK millions
Property, plant and equipment	123	6
Intangible assets	86	1
	209	7

27 Contingencies

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

a) Competition / Regulatory matters

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

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

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

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

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

27 Contingencies (continued)

a) Competition / Regulatory matters (continued)

Amis claim in front of Croatian Competition Agency

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

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

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

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

HAKOM's supervision on Bitstream Standard offer

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

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

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

27 Contingencies (continued)

a) Competition / Regulatory matters (continued)

HAKOM's supervision on Bitstream Standard offer (continued)

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

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

HAKOM's supervision on retail prices (quantity discounts)

At the request of Metronet telekomunikacije d.d., HAKOM initiated supervision to inquire whether imposed regulatory obligation regarding retail price for publicly available telephone service is being applied by HT.

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

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

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

27 Contingencies (continued)

a) Competition / Regulatory matters (continued)

HAKOM's supervision on retail prices (quantity discounts) (continued)

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

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

b) Consumer Act claims

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

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

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

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

27 Contingencies (continued)

b) Consumer Act claims (continued)

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

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

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

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

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

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

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

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

27 Contingencies (continued)

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

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

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

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

28 Balances and transactions with related parties

The transactions specified in the table below primarily relate to transactions with the companies owned by Deutsche Telekom AG (DTAG). The Company enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2010 and 2009. Further, DTAG and T-Mobile Germany provided technical assistance to the Company of HRK 13 million (2009: HRK 17 million).

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

	Revenue		Expenses	
	2010	2009	2010	2009
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	26	23	24	8
HT Mostar, Bosnia and Herzegovina	37	27	71	58
Telekom Deutschland	27	-	12	-
Others	61	10	25	10
Total international settlements	151	60	132	76
Deutsche Telekom AG, Germany	-	-	31	20
T-Systems Enterprise Services, Germany	-	-	1	3
Others	-	-	5	1
Total intercompany services	-	-	37	24
Slovak Telekom	-	-	6	3
Others	-	-	4	1
Total capital expenditure	-	-	10	4
Total related parties	151	60	179	104

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

	Receivables		Payables	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Related party:	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	8	4	13	2
HT Mostar, Bosnia and Herzegovina	9	5	30	9
Telekom Deutschland	14		60	
Others	31	1	58	1
Total international settlements	62	10	161	12
Deutsche Telekom AG, Germany	-	-	21	6
Slovak Telekom	-	-	3	1
Others	-	-	34	1
Total intercompany services	-	-	58	8
Total related parties	62	10	219	20

28 Balances and transactions with related parties (continued)

HT d.d. is a joint stock company which operates in Croatia in the telecommunications market. As a result of HT d.d.'s strategic position within the Croatian economy, a substantial portion of its business is transacted with the Croatian Government, its departments and agencies and companies owned by the Croatian Government.

The Company had the following balances on transactions with subsidiaries excluding loans in the amount of HRK 277 million (2009: HRK 227 million):

Subsidiaries:	Sales HRK millions	Purchases HRK millions	Receivables HRK millions	Payables HRK millions
2010 / 31 December 2010	80	53	22	20
2009 / 31 December 2009	479	379	103	53

Compensation of the Supervisory Board

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

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

Compensation to key management personnel

In 2010 the total compensation paid to key management personnel of the Company amounted to HRK 29 million (2009: HRK 29 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and the operating directors of the Company, who are employed by the Company.

29 Financial risk management objectives and policies

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

a) Credit risk

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

The Company does not guarantee obligations of other parties.

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

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

b) Liquidity risk

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

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

Trade and other payables all amounts in HRK millions	Due in 0-30 days	Due in 31-60 days	Due in 61-90 days	Due in 91-120 days	Due in > 120 days	Total
Year ended 31 December 2010	1,324	26	24	5	25	1,404
Year ended 31 December 2009	760	14	6	4	6	790

Other long-term liabilities all amounts in HRK millions	1 to 3 years	3 to 5 years	> 5 years	Total
Year ended 31 December 2010	9	9	12	30
Year ended 31 December 2009	6	2	12	20

29 Financial risk management objectives and policies (continued)

c) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's available-for-sale investments, cash, cash equivalents and time deposits.

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

	Increase/decrease in basis points	Effect on profit before tax HRK millions
Year ended 31 December 2010		
Croatian Kuna	+100	8
	-100	(8)
Euro	+100	4
	-100	(4)
Year ended 31 December 2009		
Croatian Kuna	+100	13
	-100	(13)
Euro	+100	4
	-100	(4)

d) Foreign currency risk

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

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

	Increase/decrease in Euro rate	Effect on profit before tax HRK millions
Year ended 31 December 2010	+3%	24
	-3%	(24)
Year ended 31 December 2009	+3%	16
	-3%	(16)

29 Financial risk management objectives and policies (continued)

e) *Fair value estimation*

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

f) *Capital management*

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009 (see Note 24).

30 Financial instruments

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

	Carrying amount		Fair value	
	31 December 2010 HRK millions	31 December 2009 HRK millions	31 December 2010 HRK millions	31 December 2009 HRK millions
Financial assets				
Cash and cash equivalents	3,245	1,713	3,245	1,713
Time deposits	2	1	2	1
Available-for-sale investments, non-current	42	32	42	32
Available-for-sale investments, current	443	146	443	146
Financial liabilities				
Interest-bearing loans	15	16	15	16

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

31 Authorization for Services and Applicable Fees

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

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

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

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

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

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

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

31 Authorization for Services and Applicable Fees (continued)

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

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

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

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

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

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

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

c) *Fees for providing electronic communications services*

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

In 2010 the Company paid the following fees:

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

31 Authorization for Services and Applicable Fees (continued)

d) Audiovisual and electronic media services

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

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

e) Electronic communications infrastructure and associated facilities

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

32 Share-based payment transactions

Various mid-term incentive plans (MTIPs) exist at HT level to ensure competitive total compensation for members of the Management Board, senior executives and other beneficiaries. The plans promote the medium and long-term value enhancement of the Company, thus aligning the interests of management and shareholders. First HT's MTIP is introduced in 2008.

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

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

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

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

32 Share-based payment transactions (continued)

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

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

33 Auditor's fees

The auditor of the Company's financial statements, Ernst & Young d.o.o., has rendered services of HRK 6.5 million in 2010 (2009: HRK 4.1 million). Services rendered in 2010 and 2009 relate to the audits and reviews of the financial statements, audit of financial statements prepared for regulatory purposes and audit of SAP transformation project.

34 Events after reporting period

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