



**ANNUAL ACTIVITY REPORT OF THE CROATIAN POST
AND ELECTRONIC COMMUNICATIONS AGENCY FOR
2008**

Zagreb, April 2009

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1. INTRODUCTION

Pursuant to Article 13, paragraph 1 of the Electronic Communications Act (hereinafter: ECA) (“Official Gazette” no 73/08) the Croatian Post and Electronic Communications Agency (hereinafter: HAKOM) hereby submits to the Croatian Parliament and to the Government of the Republic of Croatia (hereinafter: the Croatian Government) the Annual Report on its activities.

The HAKOM Annual Report contains data on the development of electronic communications networks and services market and the development of postal and courier services market, the review of the implementation of defined principles and goals of electronic communications networks and services market regulation, and of the regulation of postal and courier services market, data on fulfilling the objectives and tasks defined by the HAKOM Annual Work Programme, and all other data relevant to the presentation of the development of electronic communications network and services market and postal and courier services market in the Republic of Croatia (hereinafter: Croatia). Pursuant to the provisions of the Broadband Development Strategy and the associated Action Plan, the conditions and the development of broadband Internet access have been specially analysed in this Report.

HAKOM Financial Statement and Annual Financial Report for 2008 are an integral part of this Annual report and contain the Report on revenue, the Report on expenditures, the presentation of revenue surplus (deficit), balance sheet, the report on investment costs, the review of employees structure, and the report on budget revenue.

HAKOM activities in 2008 were primarily directed towards the realisation of defined principles and objectives related to the regulation of the electronic communications networks and services market and the regulation of postal and courier services market, with special emphasis on the maintenance and promotion of effective and sustainable market competition, as well as on encouraging new operators and service providers to enter the market. Special care was paid by HAKOM to ensuring good quality of electronic communications services at affordable prices and to keep a high level of user protection.

With its regulatory activities HAKOM provided conditions for effective market competition by adopting numerous decisions and resolutions important for further liberalisation and regulation of the electronic communications network and services market as well as the postal and courier services market. HAKOM’s activities in 2008 were directed at further market liberalisation in Croatia, and the provision of equal conditions for operators and service providers for the purpose of giving users the possibility to choose operators and services.

2. REVIEW OF THE ELECTRONIC COMMUNICATIONS MARKET DEVELOPMENT

Although the official data on the state of the electronic communications market in 2008 will be available at the end of May 2009, based on the information gathered from the quarterly reports submitted by all the operators, it may be concluded that the electronic communications market shows stability in aggregate revenue growth, as shown in figure 2.1.

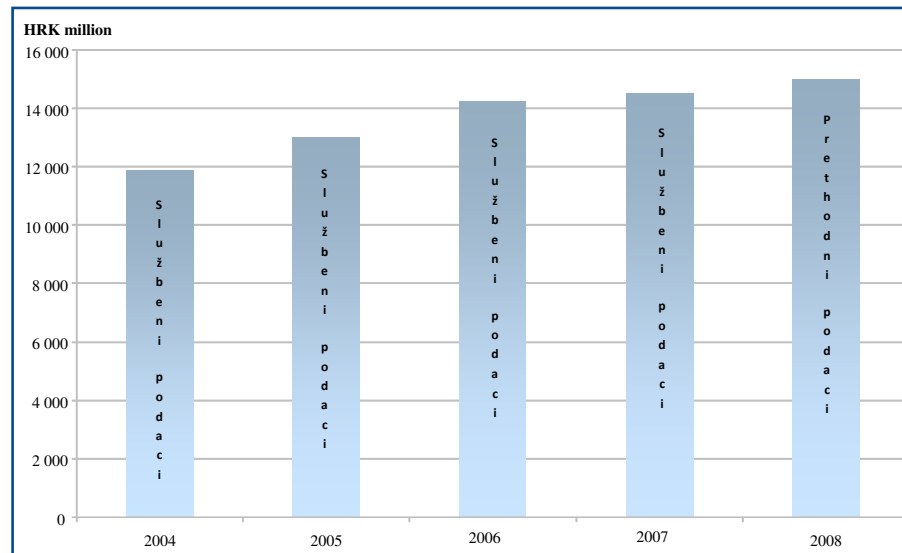


Figure 2.1: Aggregate revenue from all activities

Aggregate revenue from all electronic communications services in 2008 in relation to 2007 has been increased by 3.43%. It is encouraging that the largest increase of 19.88% can be noticed in the data transmission service activities, which is mostly the result of fast development and use of broadband Internet access, as shown in Figure 2.2.

The revenue in mobile networks also shows significant increase of 3.02%, despite lower prices and lower average revenue per user (ARPU). The phenomenon “lower price, higher revenue”, typical for the world market of electronic communications, works efficiently in Croatia as well for these activities.

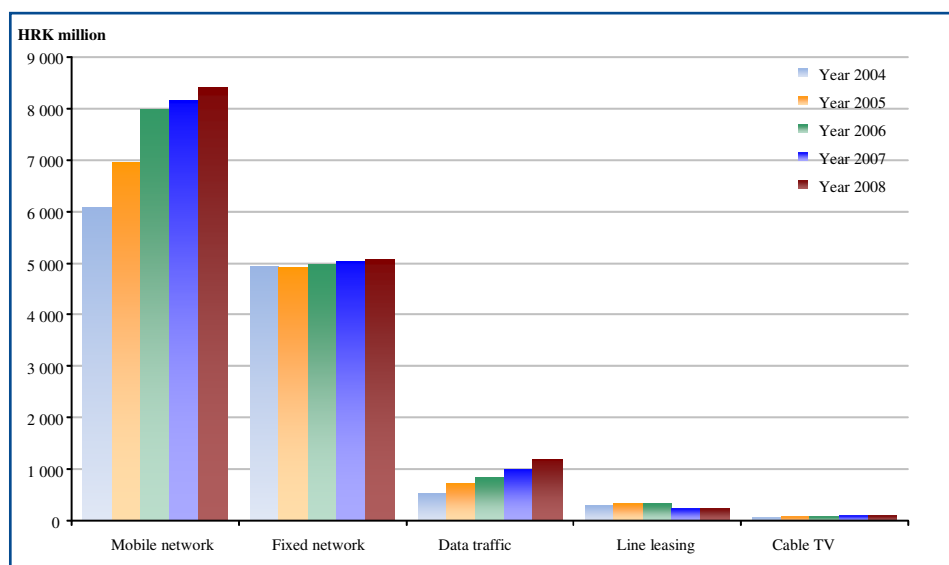


Figure 2.2 : Aggregate revenue per main network segments

Revenue growth in fixed networks is far smaller and amounts to 0.92%. Such growth in fixed networks is logical due to the fact that the developed countries have been showing a decrease in the growth of revenues and the number of users over a longer period of time. Such trend can soon be expected in Croatia in a somewhat milder form.

At the end of 2008 the Croatian market of electronic communications was characterized by indicators listed in Table 2.1.

Indicator	Number
Fixed network operators	9
Fixed network operators that are not commercially active yet	5
Mobile networks operators GSM/DCS	3
Mobile networks operators UMTS	3
Concession for fixed wireless access	51
Operators of leasing electronic communication lines	15
Operators of leasing electronic communication networks	16
Internet service providers (ISP)	43
Voice over Internet Protocol (VoIP)	39
Cable distribution operators	20
Number of radio networks	168
Number of TV networks	24
Users of fixed communications networks	1 850 940
Carrier pre-selection users	255 500
Users of mobile communications networks	5 879 850
Internet users	2 244 420
Users of broadband Internet access – <i>total</i>	683 230
<i>- in fixed networks</i>	<i>524 700</i>
<i>- in mobile networks</i>	<i>158 530</i>
Cable distribution users	136 250
Realized collocations	441
Realized unbundled local loops	92 726
Ported numbers in fixed network	269 136
Ported numbers in mobile networks	66 100

Table 2.1: Basic data on electronic communications market

2.1 PUBLIC SWITCHED TELEPHONE NETWORK

Figure 2.3 shows that the number of subscribers to public voice service via public switched telephone network (PSTN) in Croatia is stagnating.

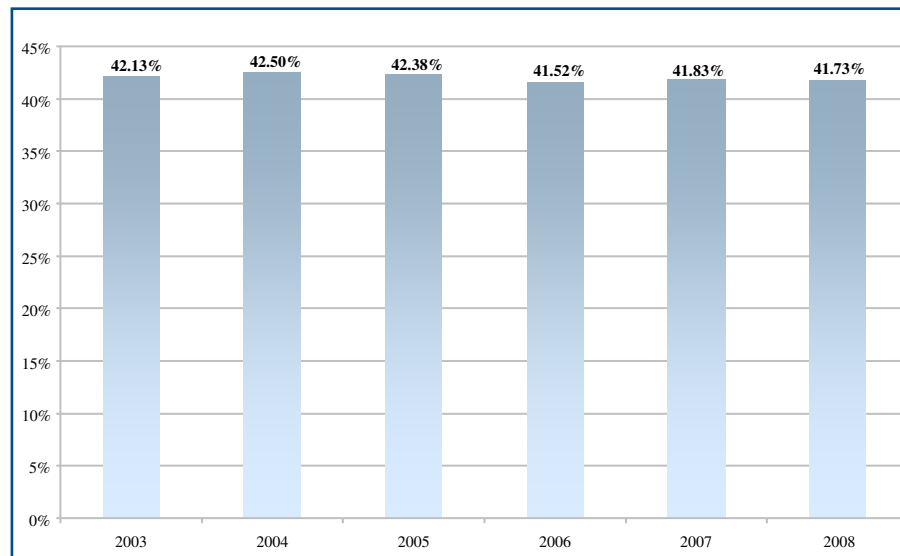


Figure 2.3: Density in fixed network

Such trend is visible in the European Union countries ⁽¹⁾ (hereinafter: the EU) as well, as shown in Figure 2.4, and it is the result of the substitution of fixed communications with mobile communications, and switchover to broadband Internet access. Further decrease in the number of users of public switched telephone network is expected, due to the trend of increased use of user equipment in mobile communications network (mobile phones) for personal communication, while units in switched network (computers) are increasingly used for family and business communications.

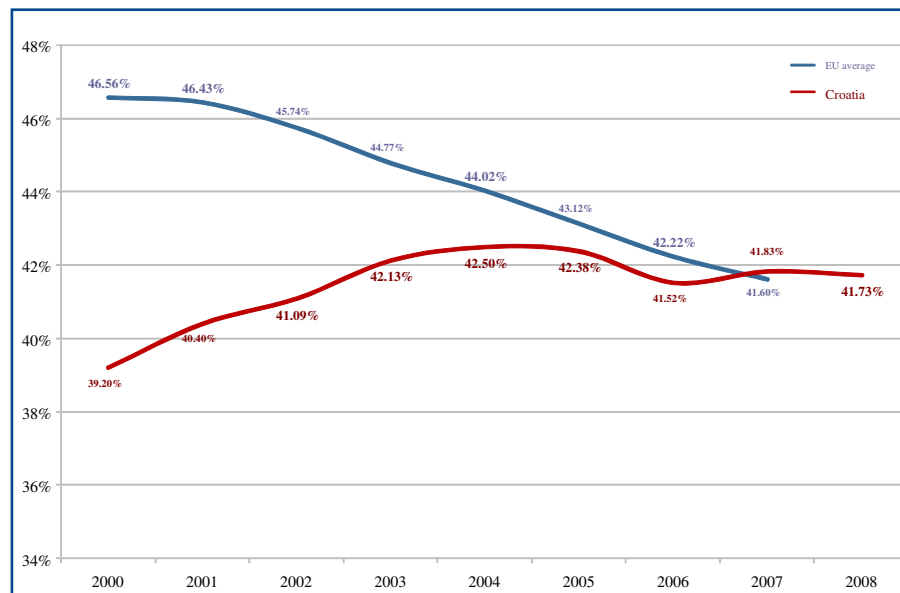


Figure 2.4: Density trends in fixed network

⁽¹⁾ The data on the electronic communication market in the EU countries have been taken from ITU, OECD, COCOM, EUROSTAT etc.

The specified trend is illustrated by the comparison of the density trend in public switched telephone network in the EU countries, and a trend of significant decrease in the number fixed network users in relation to 100 citizens-density can be noticed. Such a trend is more prominent in technologically highly developed EU countries.

At the end of 2007, Croatia had the average value of EU countries concerning the density of fixed network users as shown in Figure 2.5.

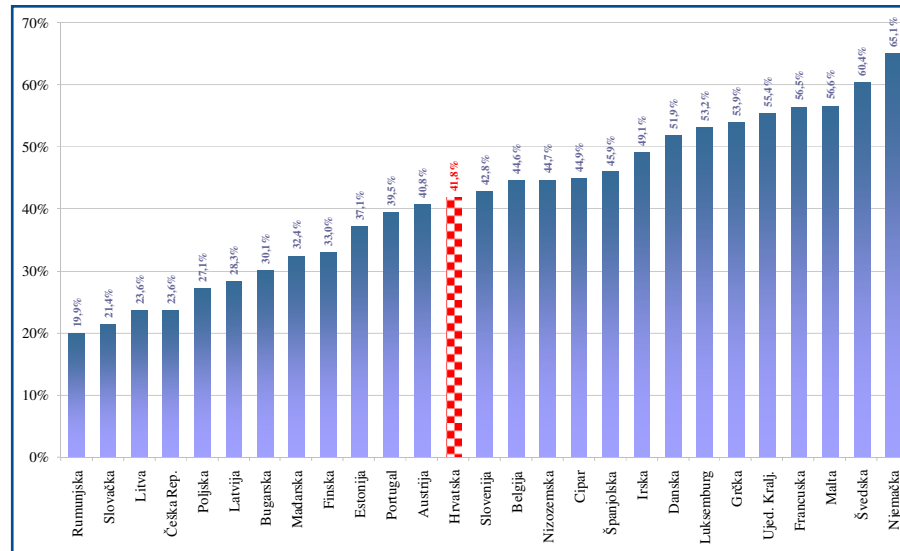


Figure 2.5 : Density of users of public voice service in fixed network (EU and Croatia)

The share of new operators on the market of fixed network in Croatia at the end of 2008, shown in Figure 2.6, has grown in relation to the number of users, and it amounts to 22.35%. The aggregate revenue earned in 2008 has increased and it amounts to 16.99%.

For the purpose of comparison, the share of new operators on the market of public fixed network in Croatia at the end of 2007 was 17.86%, and in relation to the aggregate revenue in 2007 it amounted to 11.53%.

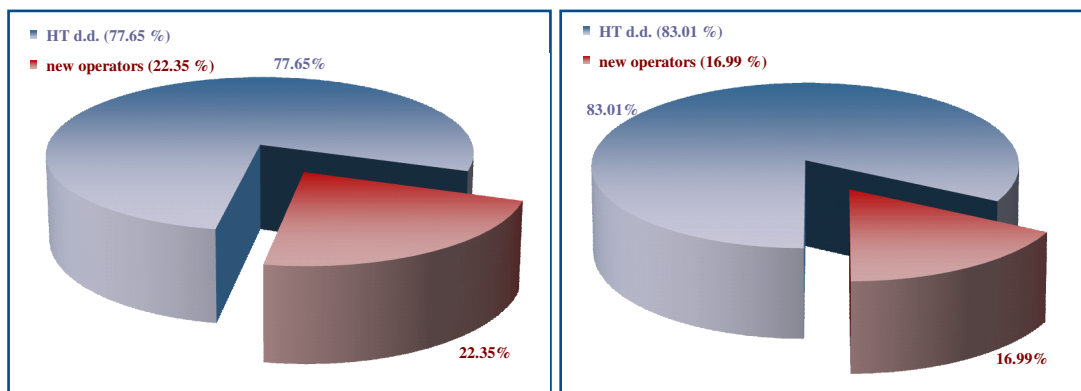


Figure 2.6: Share of new operators per number of users and per aggregate revenue

The relation between the share in revenue and the share in the number of new operator users in last year grew from 0.65 to 0.76. This proves that new operators do business in better market conditions when compared to the year 2007, but that there is still space for improvement of the regulatory frame and market competition.

In favour of the aforementioned conclusion is the increase in the number of ported telephone numbers in fixed network as shown in Figure 2.7

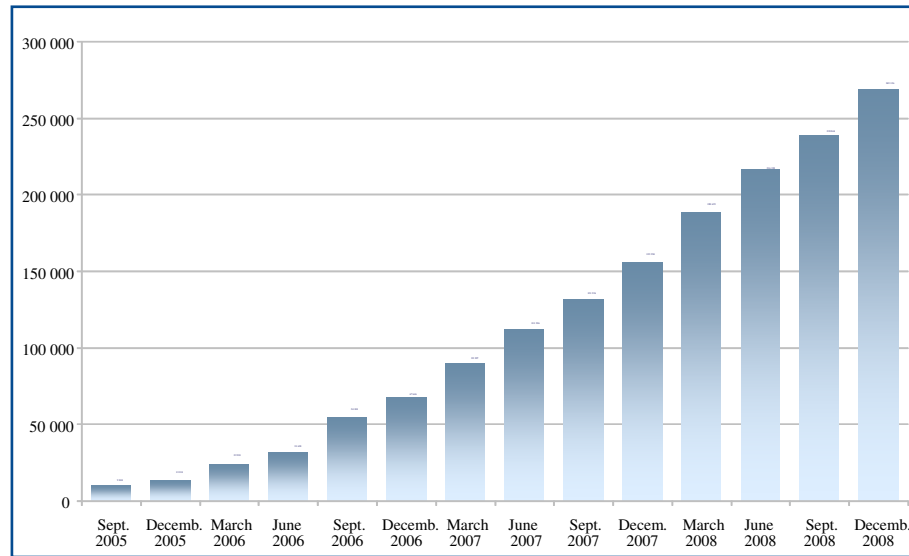


Figure 2.7: Ported telephone numbers in fixed network

The increase in the number of ported numbers in fixed network indicates not only market dynamics but an increased possibility of choice for end users.

The share of lines and network leasing operators in Croatia at the end of 2008, referring to the revenue earned during the previous year, has grown significantly and amounts to 50.66% as shown in Figure 2.8.

For the purpose of comparison, at the end of 2007 the share of new line and network leasing operators in Croatia, referring to revenue earnings during that year was 36.17%.

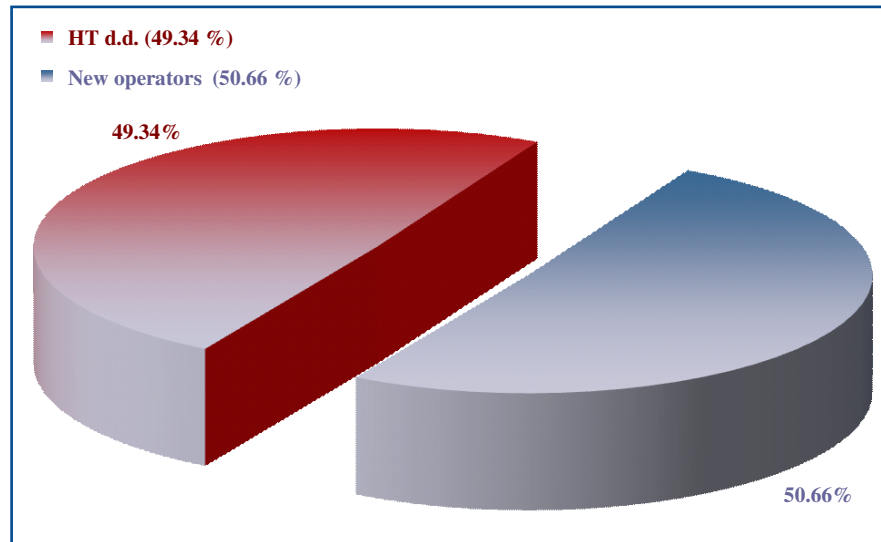


Figure 2.8: Share of line and network leasing operators

2.2. PUBLIC MOBILE NETWORK

The number of users of public mobile networks, shown in Figure 2.9, increased considerably during 2008. The most important reason for such an increase were lower prices of mobile network use, higher market competition caused by the appearance of the third mobile network operator on the market, switchover from fixed to mobile network, and general trend to use more mobile network services.

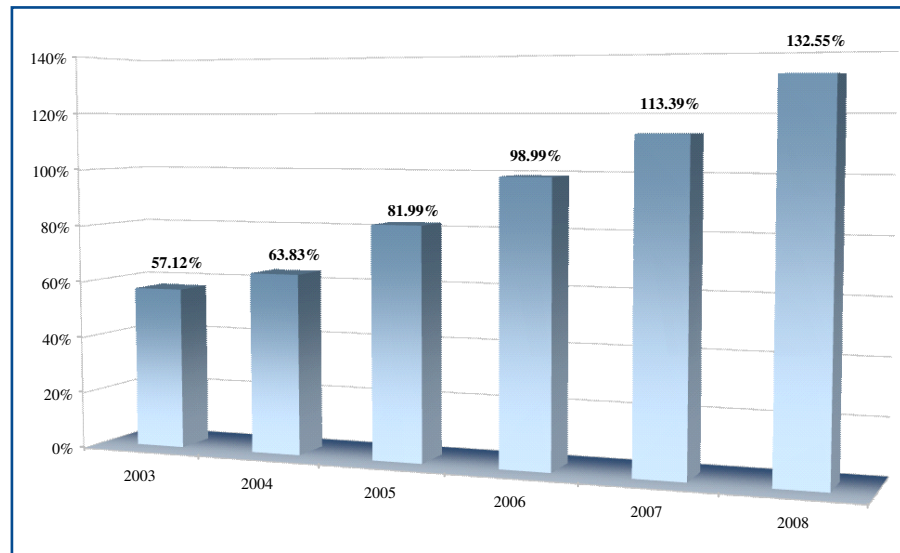


Figure 2.9: Density of mobile network users

The comparison of density (penetration) of mobile network users with the EU countries in October 2008, shown in Figure 2.10 shows that the penetration in Croatia is higher than in the EU countries, where the average is 119%, proving that the market in Croatia is well developed, mostly liberalized, with enough space for improvements in quality and lower prices.

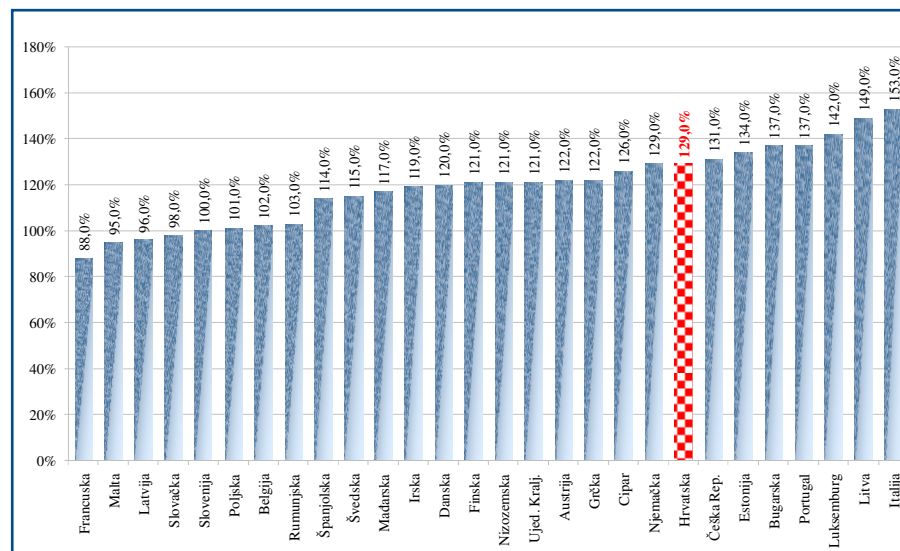


Figure 2.10: Density of mobile network users (EU and Croatia)

The share of the third operator on the mobile network market in Croatia in 2008 concerning the number of users increased from 9.34 to 11.96 %, while the share in revenue increased from 6.56 to 7.57%, as shown in Figure 2.11.

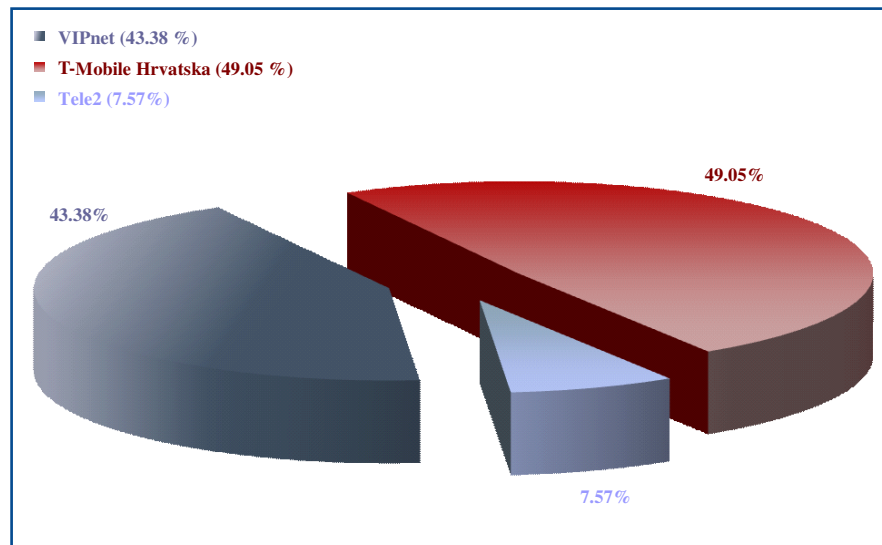


Figure 2.11: Share of mobile network operators considering aggregate revenue

The number of ported numbers in mobile network is constantly growing, as shown in Figure 2.12.

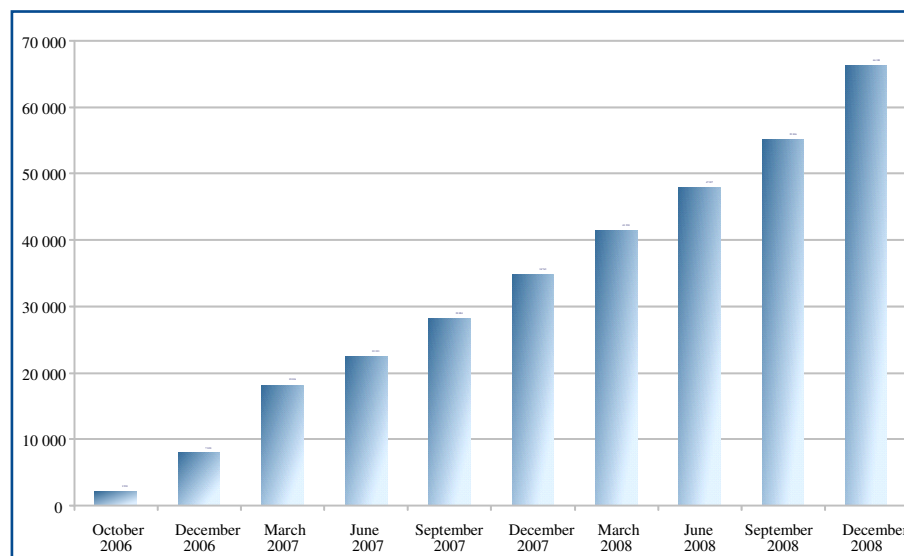


Figure 2.12: Ported numbers in mobile network

The increase in the number of ported numbers, similar to the one in fixed network, indicates the dynamics of the market and a wider choice for end users.

The OECD (Organisation for Economic Co-operation and Development) basket of public voice service in mobile network presents levelled measurable consumption of average users in such a manner that the calculated basket is comparable per operators and per

countries. While calculating, all tariff packages and all important features of tariff packages, operators or subject country are taken into account. Value added tax is included in all prices. The analysis of price trends shows that the prices for mobile network services are slightly above the EU average, as shown in Figure 2.13.

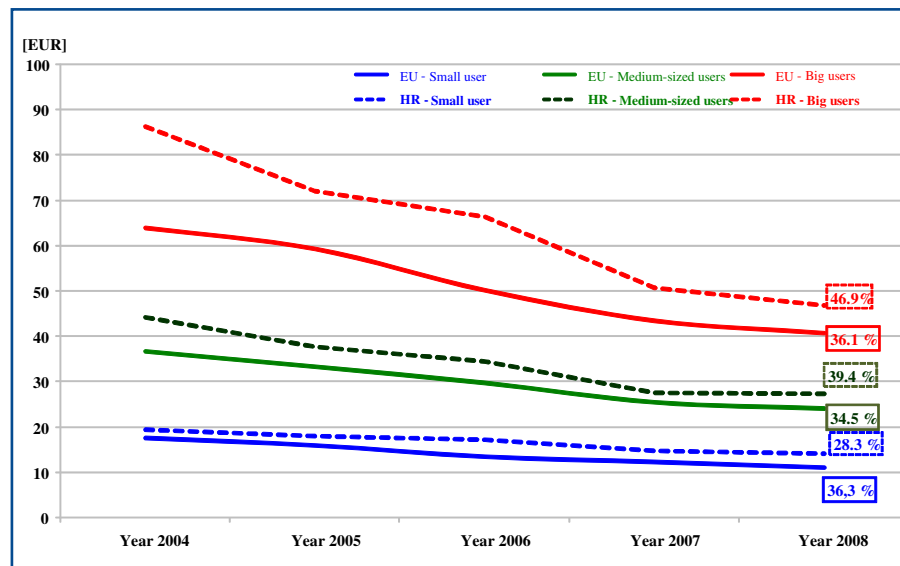


Figure 2.13: OECD basket of using mobile network services

The above Figure shows continuous price reduction for services in mobile networks since the year 2004. The price of services for small users has been decreased by 28.3%, for medium-size users by 39.4% and for big users by 46.9%, which is very similar to EU trends.

2.3. INTERNET

The development of Internet, broadband Internet access and broadband applications and services are considered to be the most important drivers of total economic growth, employment, competitiveness and efficiency and a compelling factor of ensuring better health care, education, science, culture, tourism etc.

The total number of Internet users in the world, as well as in Croatia, is showing the tendency to grow fast. The number of Internet users in the previous year, shown in Figure 2.14 increased by 12.5% and reached the number of 2 244 420 users, which provides user density in relation to the number of citizens of 50.6% percent, placing Croatia within the EU average value.

However, speaking of broadband access, Croatia does not have the desired broadband competitiveness when compared to the EU countries.

The number of subscribers to broadband Internet access through fixed network in 2008 increased by 35.58%, reaching the density concerning the number of inhabitants of 11.83%.

During 2008, the measuring of broadband Internet access through mobile networks⁽²⁾ was introduced to the electronic communications market. Mobile Internet access is on the increase throughout the world.

⁽²⁾ In its report of October 2008 COCOM presents broadband Internet access by using mobile network platforms for the first time.

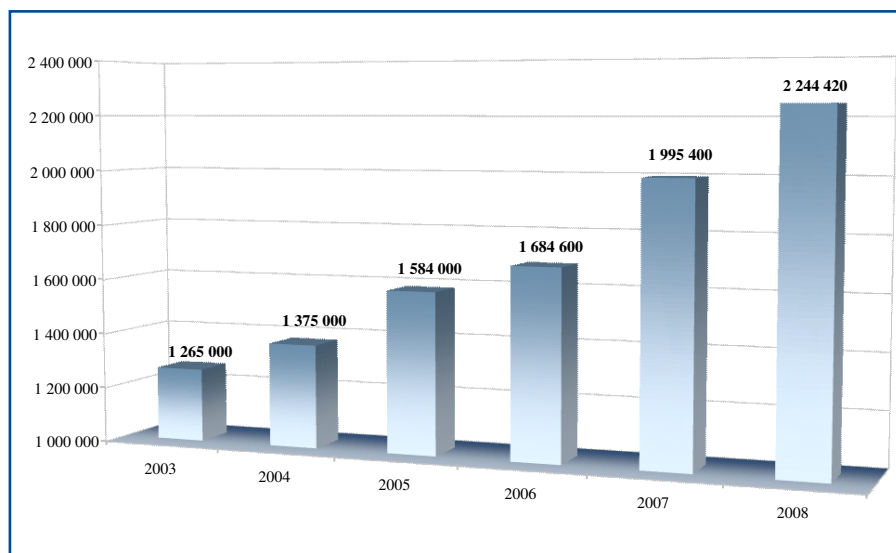


Figure 2.14: Number of Internet users

At the end of 2008, the broadband Internet penetration via mobile networks in the EU countries was above 13% considering the number of inhabitants, or more than 42 million subscribers. A year ago, the penetration was only 2.8%.

Broadband Internet access via mobile networks at the end of 2008, shown in Figure 2.15, reached the number of 158 530, which gives the density considering the number of inhabitants of 3.57%.

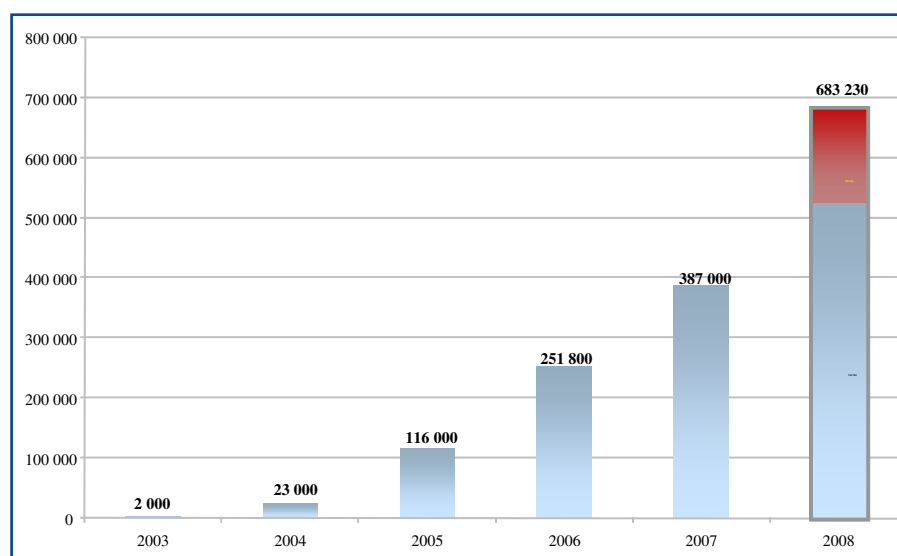


Figure 2.15: Total number of broadband Internet users

At the end of 2008 there were 683 230 broadband Internet access connections in Croatia which presents the density of 15.4% percent considering the number of inhabitants.

Special care should be paid to the even development of broadband Internet access per regions. The graph of broadband access penetration in fixed network⁽³⁾ per counties is given in Figure 2.16.

⁽³⁾ The graph has been made with the geo information support by HAKOM

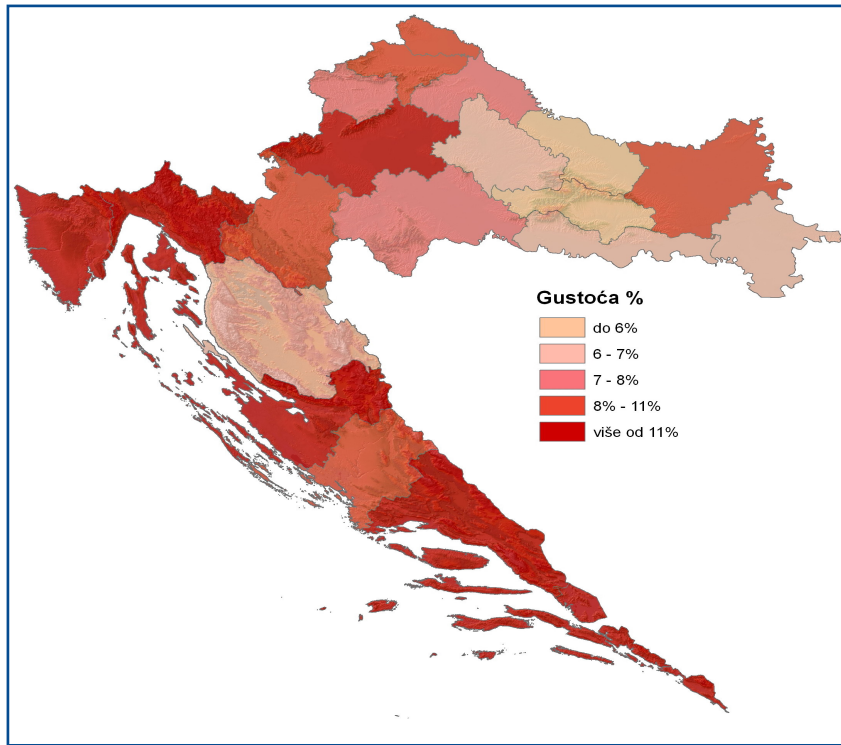


Figure 2.16: Distribution of broadband connections per counties

This Figure shows a very uneven distribution of broadband connections per counties, and subsequently the justification of selective incentives in the development of broadband Internet access in the Republic of Croatia.

Further, significant contribution to total number of broadband connections brings important development and implementation of broadband access via mobile networks.

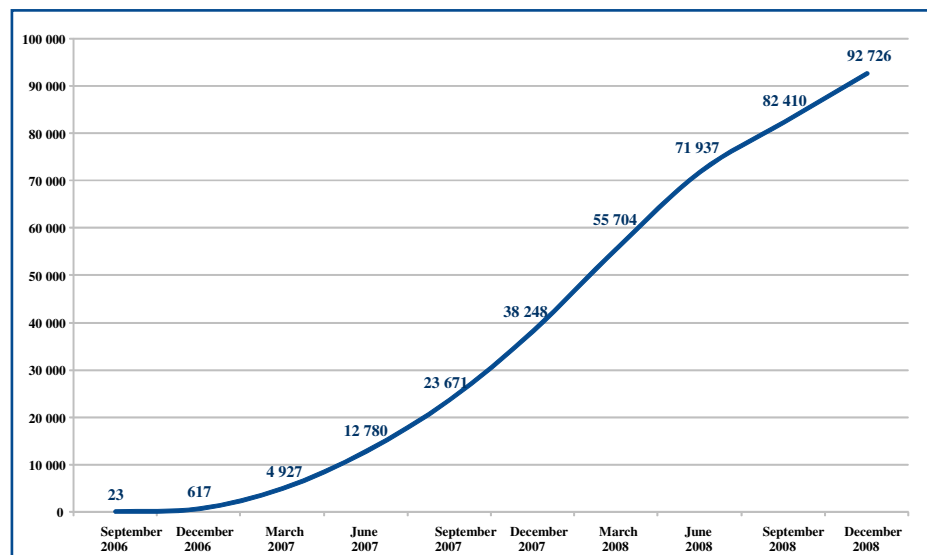


Figure 2.17: Unbundled local loops shown from the beginning of service availability

Fast growth of unbundled local loops proves fast liberalization of electronic communications market in Croatia, Figure 2.17 . The same is true for collocations, Figure 2.18.

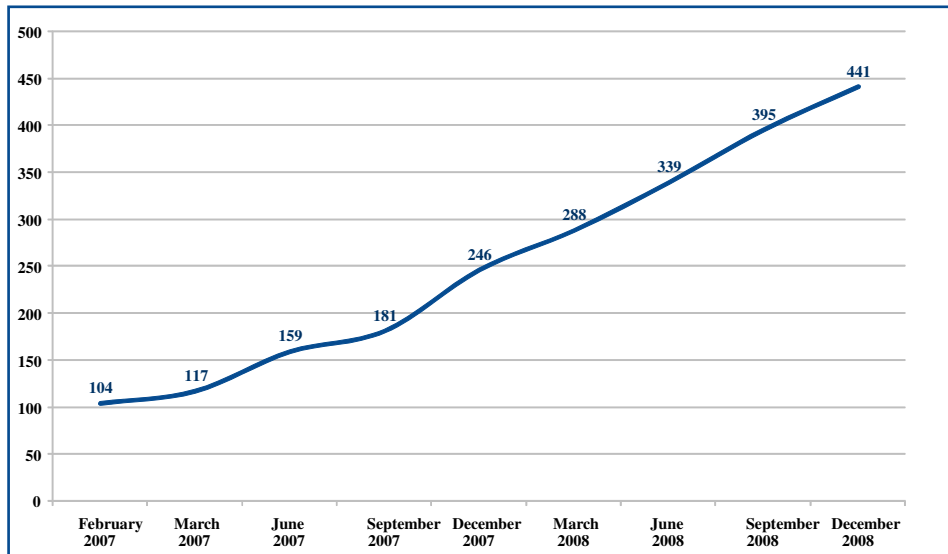


Figure 2.18: Trend in number of collocations in 2007 and 2008

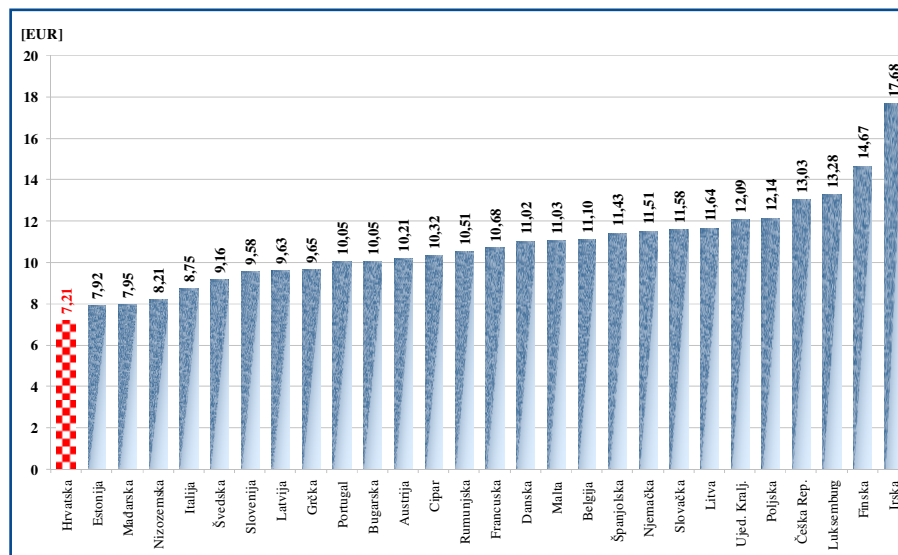


Figure 2.19: Monthly fee for full access to unbundled loop (EU and Croatia)

Figures 2.19 and 2.20 show that the monthly fees for total and shared access to unbundled loops are among the lowest when compared to the prices in the EU countries. With its price policy, HAKOM has contributed to the development of market competition and faster development of broadband Internet access.

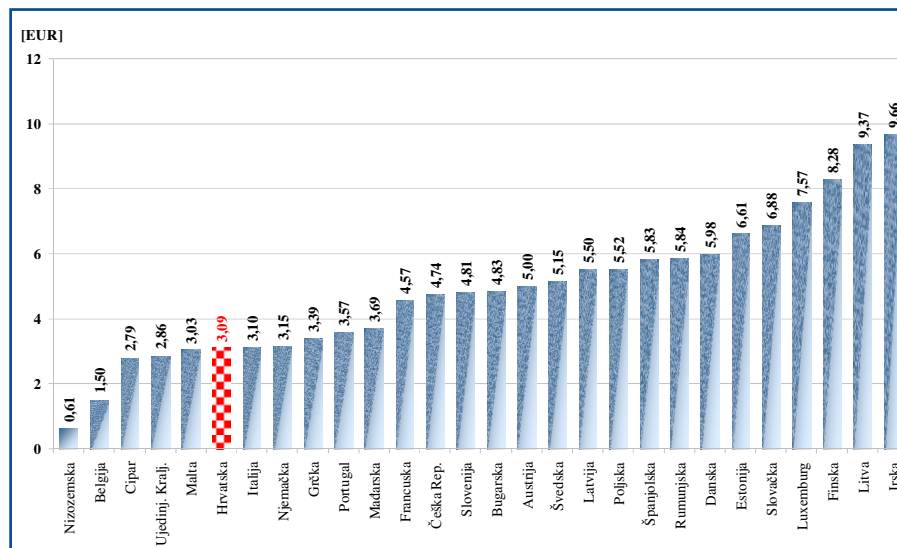


Figure 2.20: Monthly fee for shared access to unbundled loop

2.4 DIGITAL TELEVISION

The process of digitalization and switchover from analogue to digital television (hereinafter: DTV) has already started and it is taking full swing. The digitalization of the audio-video content enables numerous new services which are based on personalization and interactivity, such as personal selection and schedule of programmes, delayed programmes, video on request, interactive voting, participation in quiz shows, commercial elimination or target commercials.

The market is faced with the problem of standardisation, ownership protection, consumer protection, advertising, conservation of public and cultural values.

The EU is trying to accelerate the process of switchover to terrestrial DTV in order to free the spectrum for additional television contents and new information and communications services. The European Commission has thus issued its Recommendation to switch off the analogue terrestrial television by 2012. It has been estimated that not all EU countries shall be able to finish the process by that deadline, as the starting point was not the same for every country, and the time of process commencing was not the same. Some countries shall implement DTV simultaneously in the entire territory, while others shall do it region by region, even city by city. Although some countries have already finished the process, the realistic time limit for all EU countries to finish the switchover process is the end of 2015.

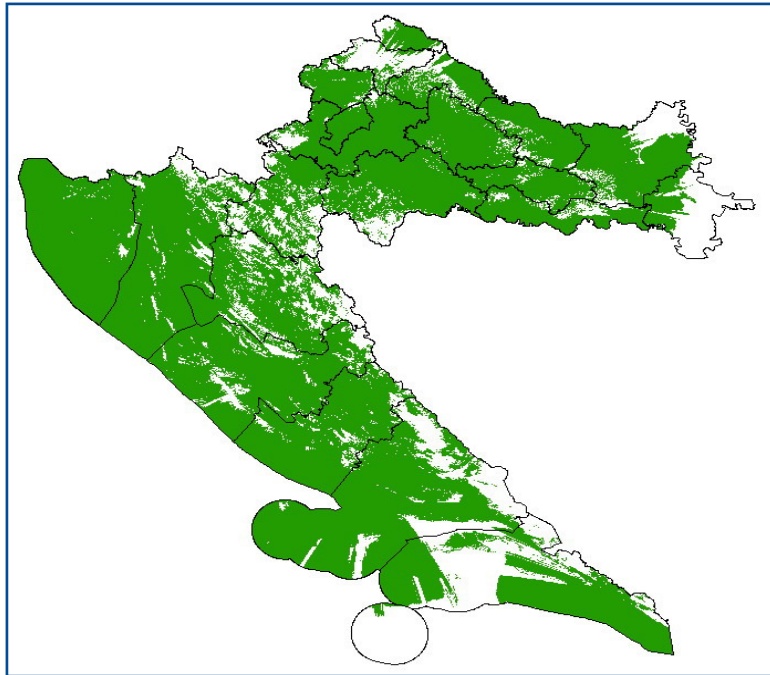


Figure 2.21: Territorial coverage of DVB-T signal

The activities of switching over to DTV in Croatia are in progress. DTV signal coverage has been ensured for approximately 85 per cent of citizens. Big cities such as Zagreb, Split, Rijeka, Osijek, Zadar, Pula, Dubrovnik etc are covered by the signal, as shown in Figure 2.21.

The number of cable TV users is growing slightly when compared to the previous years, as shown in Figure 2.22. Considering the technological advancement enabling the integration of public voice service, Internet access and cable TV, and the ever-growing interest to invest in the construction of this kind of networks, significant growth in the number of cable TV users is expected in the upcoming period.

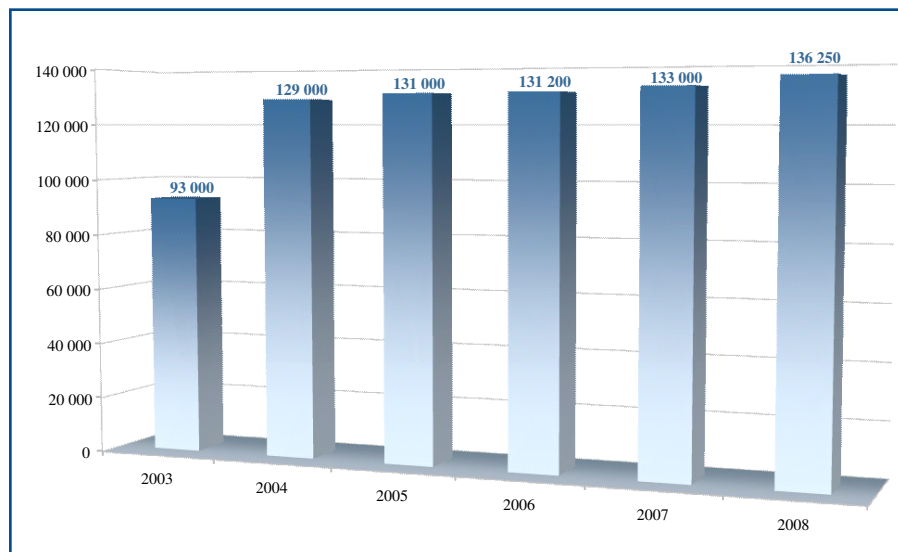


Figure 2.22: Total number of cable television subscribers

The fact that the growth of cable television has not been satisfactory, further encouragement of convergence and consolidation at fixed communications market is necessary.

3. REVIEW OF DEVELOPMENT OF POSTAL SERVICES MARKET

Since the entry into force of the Electronic Communications Act on 1 July 2008, following the development of postal services, postal and courier services market as well as taking necessary measures to ensure non-discriminating and efficient competition on the market of postal and courier services lies within the competence of HAKOM. In accordance, HAKOM has gathered statistical and unofficial financial data from postal and courier service providers. The indicators of postal and courier services market shown in this Annual Report are based on the specified data.

The data in this report are given separately for HP – Hrvatska pošta d.d. (Croatian Post) (hereinafter: HP) as public operator and aggregate data for all other service providers (group: other providers).

3.1. PROVIDERS OF POSTAL AND COURIER SERVICES IN CROATIA

Postal and courier services in Croatia, with the exception of reserved postal services, which only public operator has the right to provide, may be provided on the basis of a licence or registration. Universal postal services shall be performed on the basis of a licence granted by HAKOM. Postal services which are not universal and courier services may be performed by all providers who register with HAKOM. The only provider of the universal postal services in Croatia at the moment is HP.

Considering the fact that there is only one provider of universal postal services on the market, providing courier services as well, at the end of 2008 there were only sixteen (16) registered postal and courier service providers in Croatia, fourteen of them active.

The following providers of postal and courier services were active in 2008:

- HP
- DHL-INTERNATIONAL d.o.o.
- INTEREUROPA SAJAM međunarodno otpremništvo d.o.o.
- DPD CROATIA d.o.o.
- Lagermax AED Croatia, d.o.o.
- INTEREUROPA logističke usluge d.o.o.
- IN TIME d.o.o.
- City EXPRESS d.o.o.
- CROATIAEA, d.o.o.
- Lider express d.o.o.
- ZUM DISTRIBUCIJA d.o.o.

- TOMATANE d.o.o.
- BICIKL EXPRESS d.o.o.
- OVERSEAS TRADE Co Ltd d.o.o.

Considering the type of services they provide, all providers are registered for the provision of courier services, out of which nine (9) are registered for the provision of courier services only, four (4) for the provision of courier services and document exchange services, and three (3) for the provision of courier services, services of reception, transport and delivery of press (newspapers and magazines) sent by publishers, other postal services provided on open market, and exchange of documents. In addition to universal postal services, HP provides other postal and courier services.

Considering the territory where services are provided, seven (7) providers are registered for the provision of services in the territory of Croatia and in international traffic, eight (8) are registered for the provision of services only in the territory of Croatia, and one (1) only for providing international services.

3.2 INFORMATION ON SERVICES

According to submitted information and data, operators of postal and courier service in 2008 realised the total of 401 739 185 postal, courier and related services, which shows almost the same level of services as in 2007. HP provided the total of 360 359 612 services realising a share of approximately 90 percent on the total market, while the group other providers realised a share of approximately 10 percent with 41 379 573 of provided services. The group other providers increased its market share by approximately 35 per cent (Figure 3.1) in 2008, when compared to 2007.

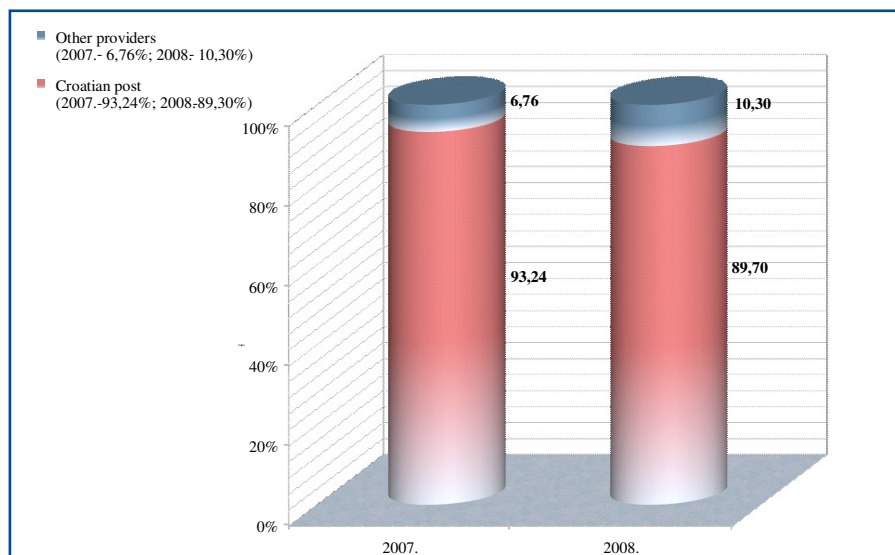


Figure 3.1: Share in the total number of provided services

The structure of the total services (Figure 3.2) shows that mail items in HP made approximately 93 per cent of all services, while they made approximately 82 per cent in the group other providers. The share of parcels in the total number of provided services in HP made approximately 1 per cent, while it made approximately 11 per cent in the group other providers.

With reference to individual categories of services and shares of the group other providers and HP in the total number of realised services in 2008, and compared to the previous year, the share of the group other providers noticeable when compared to HP services, in all categories except in the category of unaddressed mail. (Table 3.1)

		Other providers	HP	Total	Shares of other providers	Share of HP	
Total services	2006	23.446.984	370.746.387	394.193.371	5,95	94,05	
	2007	27.287.961	376.466.449	403.754.410	6,76	93,24	
	2008	41.379.573	360.359.612	401.739.185	10,30	89,70	
	Index	2008/2006	176	97	102		
		2008/2007	152	96	100		
Mail items	2006	21.066.845	316.910.967	337.977.812	6,23	93,77	
	2007	20.058.357	344.582.045	364.640.402	5,50	94,50	
	2008	34.053.375	334.185.309	368.238.684	9,25	90,75	
	Index	2008/2006	162	105	109		
		2008/2007	170	97	101		
Parcels	2006	1.749.139	3.647.950	5.397.089	32,41	67,59	
	2007	4.177.579	3.774.889	7.952.468	52,53	47,47	
	2008	4.482.198	3.695.357	8.177.555	54,81	45,19	
	Index	2008/2006	256	101	152		
		2008/2007	107	98	103		
Unaddressed Mail	2006	631.000	48.988.487	49.619.487	1,27	98,73	
	2007	975.000	26.838.970	27.813.970	3,51	96,49	
	2008	556.000	21.189.102	21.745.102	2,56	97,44	
	Index	2008/2006	88	43	44		
		2008/2007	57	79	78		
Other postal items	2006	0	1.198.983	1.198.983	0,00	100,00	
	2007	2.077.025	1.270.545	3.347.570	62,05	37,95	
	2008	2.288.000	1.289.844	3.577.844	63,95	36,05	
	Index	2008/2006		108	298		
		2008/2007		102	107		

Table 3.1: Number of realised services per categories and shares per operators

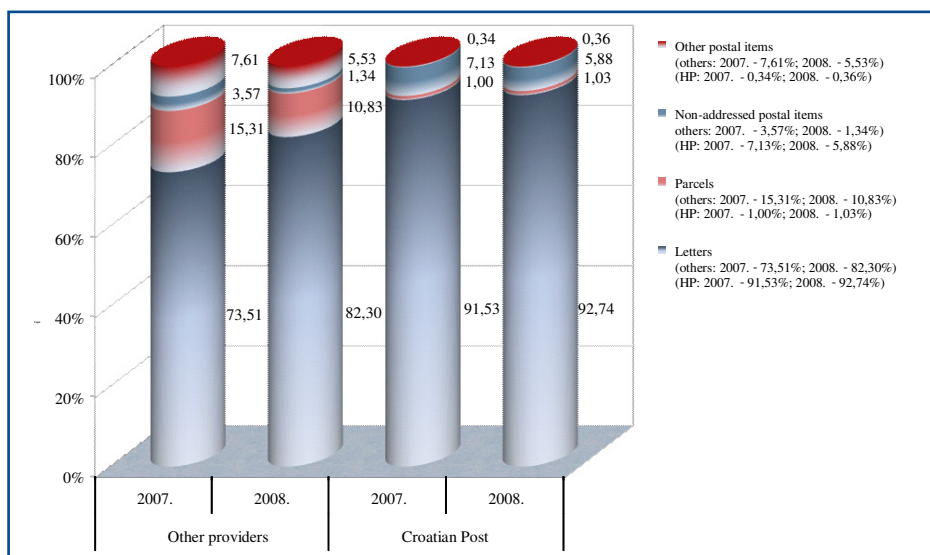


Figure 3.2: Shares in total services per operators

Out of the total number of services provided by all active postal and courier service operators, domestic mail made approximately 90 per cent, more than 5 percent in international reception and slightly more than 4 percent in international mail. (Figure 3.3).

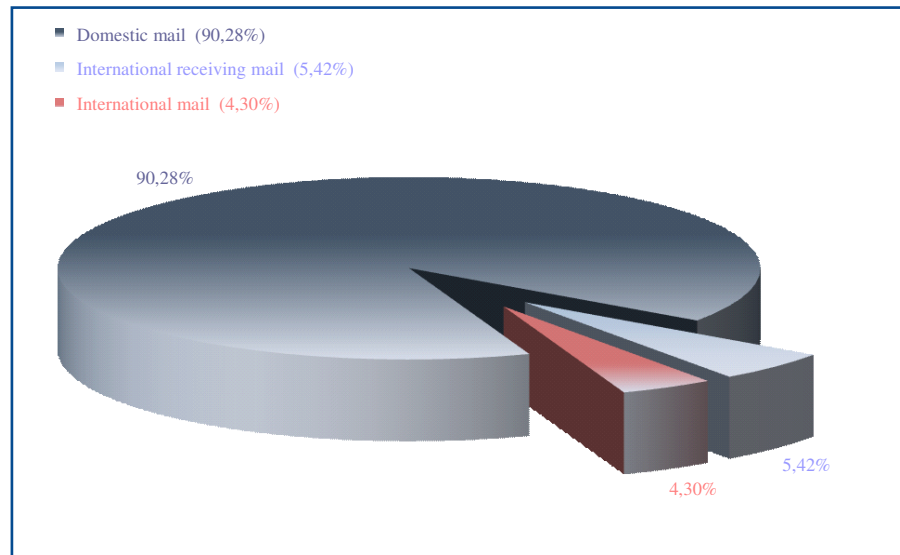


Figure 3.3: Share of services per type of mail in 2008

Figure 3.4 shows the share of mail items of HP and the group other providers in total realised traffic. The Figure shows a decrease of HP share in domestic traffic in 2008 in comparison with the previous year by almost four (4) per cent. In international mail items traffic the share of HP in 2007 and 2008 was over 99 per cent.

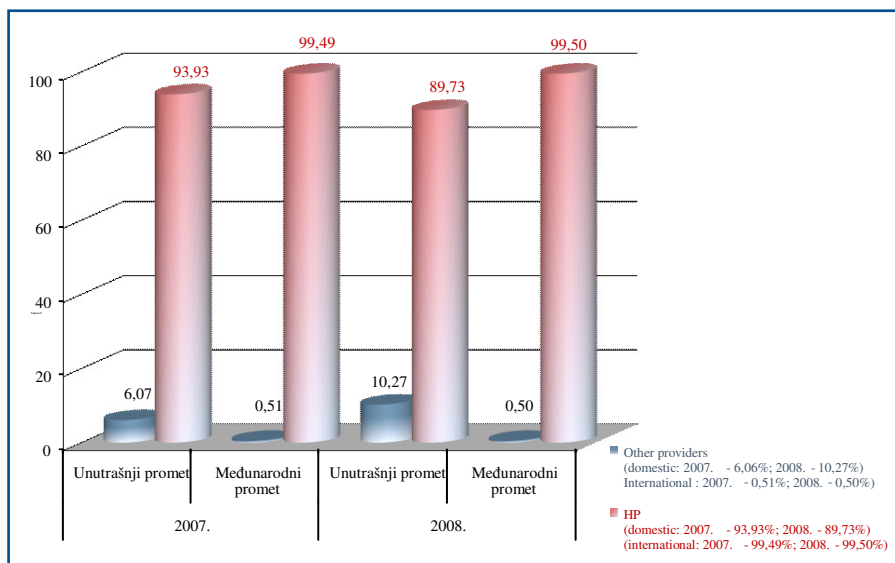


Figure 3.4: Penetration of mail items shown per type of traffic

As opposed to mail items, where HP had a significantly higher share than the group other providers, in the parcel category, the shares are different considering domestic and international traffic. The share of parcels in international traffic in 2007 and 2008 was three times higher for the group other providers. In domestic parcel traffic the share of the group other providers was higher than HP share by 7 percent (Figure 3.5).

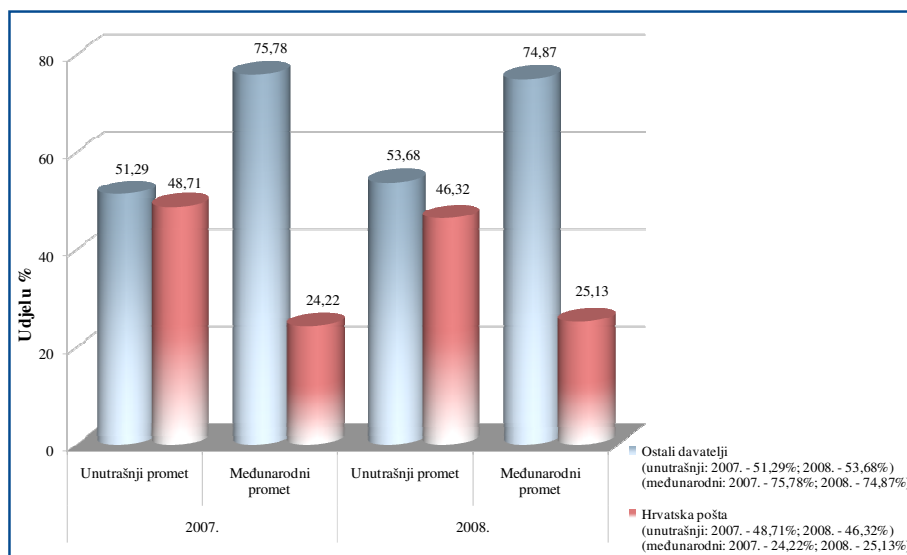


Figure 3.5: Shares of packages per type of traffic

3.3. SERVICE PROVIDERS BUSINESS

3.3.1. Revenue of service providers

Pursuant to the submitted data from unrevised financial statements, or to the estimated data for providers who, in addition to postal and courier services, provide other services as well, the aggregate revenue of active postal and courier service providers was HRK 2 404 684 744 in 2008 and it represents approximately the same level as in 2007. This revenue includes revenue from the provision of postal and courier services, as well as revenues from other types of services and activities (financial services, goods selling, freight forwarding, logistics, freight transportation etc). HP, in comparison to the year 2007, decreased its revenue by approximately eight percent, and the group other providers increased its revenue by approximately 17 percent.

In accordance with the submitted data, postal and courier service providers made the aggregate revenue of HRK 1 419 662 536 in 2008 by providing postal and courier services.

Out of all revenues of active service providers, HP made HRK 1 541 320 000 in 2008 or 64.10 per cent, and the group other providers HRK 863 364 744, or 35.90 per cent (Figure 3.6).

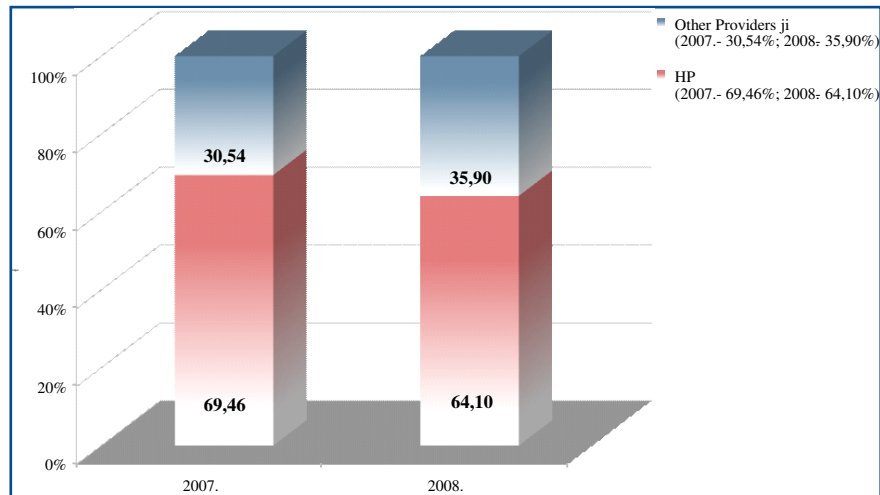


Figure 3.6: Shares of revenues in aggregate revenues

3.3.2 Service provider expenditure

Pursuant to the submitted data in unofficial, unrevised financial statements, or estimated data for providers who, in addition to postal and courier services, provide other services as well, aggregate expenditures incurred by active postal and courier service providers in 2008 amounted to HRK 2 547 366 680, and show an increase of approximately eight per cent in comparison to the year 2007, when the expenditures amounted to HRK 2 362 501 263. These expenditures include expenditures incurred by the provision of postal and courier services, as well as expenditures by other services and activities (financial services, goods selling, freight forwarding, logistics, freight transport etc). In comparison to the year 2007, HP increased its expenditures by approximately six per cent, and the group other providers by approximately 12 per cent.

Out of aggregate expenditures by all active service providers, HP incurred HRK 1 782 831 000 or 70 per cent in 2008, and the group other providers incurred HRK 764 535 680, or 30 percent (Figure 3.7).

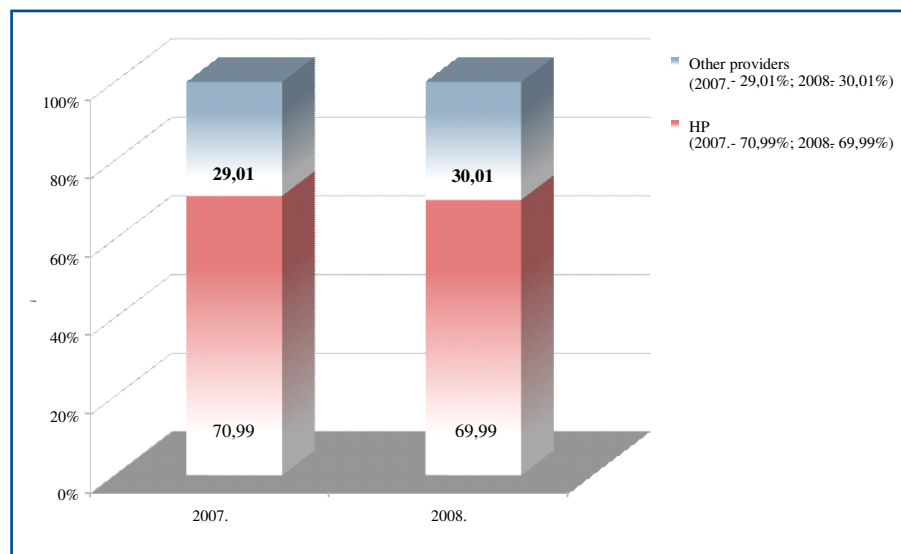


Figure 3.7: Expenditures shares in aggregate expenditures

3.3.3. Service providers business results

Pursuant to the submitted data, active providers of postal and courier services incurred aggregate loss before taxation of HRK 142 681 936 in 2008 by the provision of postal and courier services as well as by the provision of other types of services and activities (financial services, goods selling, freight forwarding, logistics, freight transport etc). In 2007, service providers made a profit of HRK 53 801 055 (Figure 3.8). The biggest influence on the incurred loss was the negative business result of HP.

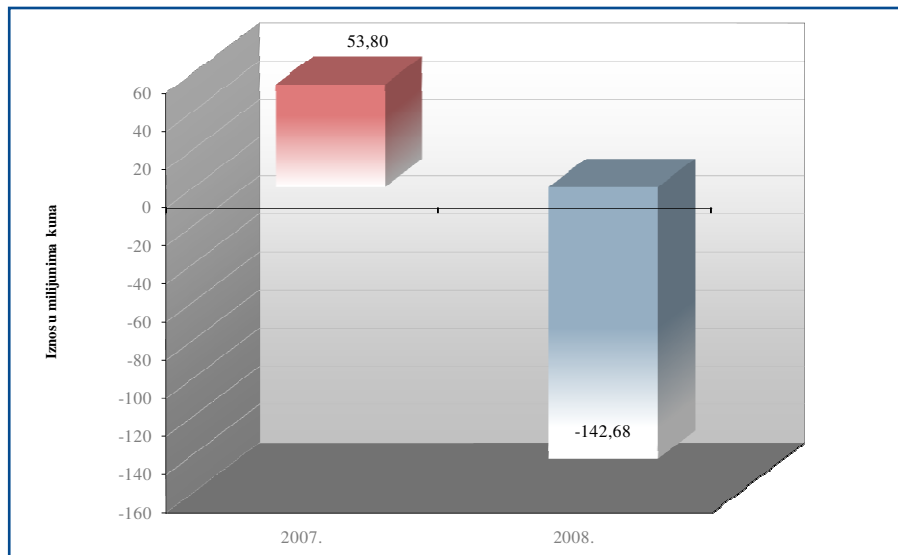


Figure 3.8: Aggregate business results from all activities before taxation

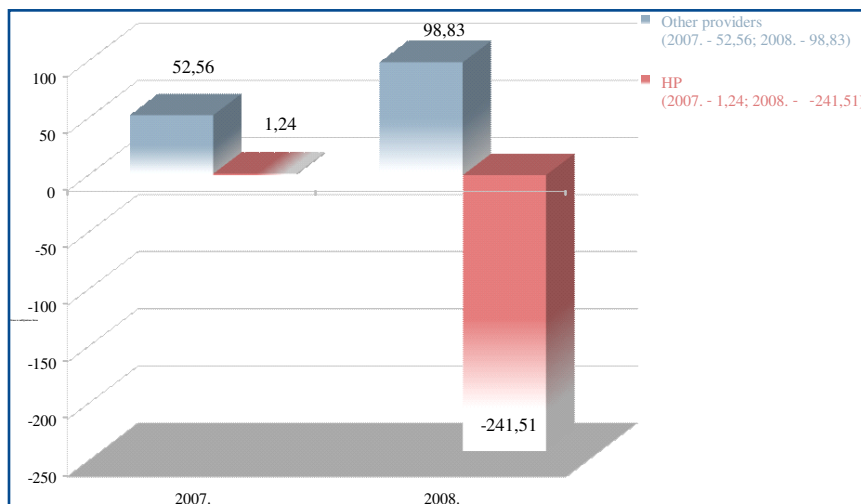


Figure 3.9: Aggregate business results from all activities

Aggregate business results (Figure 3.9) show that the group other providers increased its profit in 2008, and increased the difference between the profit made by one part of providers and incurred loss by another part of providers, in comparison with the previous year, while, according to the data, HP incurred a loss in 2008, in comparison with 2007, when HP made a profit. On the basis of received data by HP, the specified loss is mostly

the result of HP's restructuring activities and redundancy payment to 740 employees who left HP in the process of restructuring, amounting to approximately HRK 140 million. Another reason for the loss was the decrease in financial revenue from affiliated companies in the amount of approximately HRK 155 million, with the greatest influence of small incomes by investment in stocks or investment funds.

4. REGULATION OF ELECTRONIC COMMUNICATIONS MARKET

HAKOM's activities in 2008 were primarily directed at meeting the defined principles and objectives of the regulation of electronic communications market, where special emphasis was placed on the promotion of efficient and sustainable market competition, as well as on encouraging new operators and service providers to access the market. In doing so, HAKOM took special care of ensuring good quality of electronic communications services at an affordable price and of high level of user protection.

It should be emphasized that one of the more important drivers of market competition development in the field of electronic communications in 2008 was the improved offer of wholesale services from operators with significant market power, further intensifying of the local loop unbundling process, intensive building of own access infrastructure by the new operators and investing into the access infrastructure modernisation. Following the example of countries with well-developed communications markets and technologies, conditions for the development of convergent services, i.e. connecting mobile and fixed telephony services, Internet services and IPTV have been created in Croatia.

The total number of Internet users in Croatia has increased significantly. By the end of 2008, more than a half of Croatian citizens have been using the Internet. The development of offers and the increase in the number of broadband Internet users is particularly significant. The total density of broadband Internet connections in 2008 increased by 35.57% when compared to 2007. Through its activities, HAKOM significantly influenced the achievement of these results by adopting a number of decisions and orders important for further liberalisation and regulation of the electronic communications market, by ensuring conditions for efficient competition on the broadband service market, as well as by programmes encouraging the development of broadband internet access on the islands, areas of special state concern and hill and mountain areas.

4.1. DESIGNATING AND REGULATING OPERATORS WITH SIGNIFICANT MARKET POWER

Operator has significant market power if, individually or jointly with other operators, it enjoys a position equivalent to dominance, that is to say a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, users of services and consumers. Should HAKOM determine insufficient efficiency of market competition on the relevant market, it shall adopt the decision on designating the operator with significant market on that market and shall impose regulatory obligations to eliminate and minimise the determined shortcomings on the market. At the end of 2007, the Council of HAKOM published a list of competent markets, operators and providers of telecommunications services with significant market power on relevant markets.

Operators with significant market power on the relevant market of services of fixed public telephone networks in the territory of the Republic of Croatia (public voice services and services of transmission of speech, sound, data, documents, images and other in fixed network of electronic communications) are the following:

- HT-Hrvatske telekomunikacije d.d., Zagreb, Savska cesta 32,
- Iskon Internet d.d., Zagreb, Garićgradska 18.

Operators with significant market power on the relevant market of services of public voice service in the networks of mobile electronic communications in the territory of the Republic of Croatia are the following:

- T-Mobile Hrvatska d.o.o., Zagreb, Ulica grada Vukovara 23,
- VIPnet d.o.o., Zagreb, Vrtni put 1.

Operators with significant market power on the relevant market of interconnection in the territory of the Republic of Croatia are the following:

- T-Mobile Hrvatska d.o.o., Zagreb, Ulica grada Vukovara 23,
- VIPnet d.o.o., Zagreb, Vrtni put 1,
- HT-Hrvatske telekomunikacije d.d., Zagreb, Savska cesta 32.

The operator with significant market power on the relevant market of electronic communications leased lines in the territory of the Republic of Croatia is HT-Hrvatske telekomunikacije d.d., Zagreb, Savska cesta 32 (hereinafter: the HT).

In 2008, HAKOM started the process of market analysis in order to determine the efficiency of market competition and, depending on the results of the analysis, to designate new or amend, keep or abolish the existing regulatory obligations for operators with significant market power. In the process of market analysis, HAKOM takes special account of the state on the market of electronic communications networks and services in Croatia and of the implementation of the relevant European Commission (hereinafter: the EC) Recommendation on relevant markets susceptible to ex-ante regulation. Taking the aforementioned into account, the Council of HAKOM adopted a Decision on the identification of relevant markets susceptible to ex-ante regulation in July 2008, thus initiating the process of market analysis on the following five relevant markets:

- initiation of calls from public telephone networks at a fixed location,
- termination of calls to a specific public telephone networks at a fixed location,
- wholesale access to network infrastructure (including shared and full access to unbundled local loop) at a fixed location,
- wholesale broadband access,
- termination of calls to a specific mobile public communications network.

As the Council of HAKOM considered it necessary to review the need to implement ex-ante regulation on markets which are not a part of the EC Recommendation on relevant markets susceptible to ex-ante regulation, it has adopted a decision identifying operators who are obligated to submit all necessary data for identifying the following relevant markets:

- public voice service in the networks of mobile electronic communications,
- access and initiation of calls from the networks of public mobile electronic communications;
- transfer of calls in fixed public telephone network.

Upon adopting the aforementioned decisions, and for the purpose of collecting all necessary data, HAKOM sent questionnaires to operators, related to the process of establishing, identifying and analysing the market. The questionnaires were filled in and

submitted by the operators. On the basis of the submitted data, HAKOM initiated a detailed analysis of the aforementioned relevant markets. The process of analysing the relevant markets is being conducted within the planned frames and deadlines.

4.2. ELECTRONIC COMMUNICATIONS SERVICES IN FIXED NETWORK

Electronic communications services in fixed network include public voice service in fixed network, services of leasing electronic communications lines, services of leasing electronic communications network or its elements, service of cable distribution and Internet access services.

The effects of liberalisation on the markets of electronic communications services in fixed networks in Croatia are greatly the consequence of HAKOM's activities and its decisions which regulate the market of electronic communications. In 2008, the Council of HAKOM adopted a number of decisions enabling operators easy access to the HT network on the wholesale level. On the basis of these decisions, other operators have the possibility to offer services to end users on retail markets with the use of elements of HT network. Listed hereafter are the explained regulatory decisions adopted by the Council of HAKOM on the existing and new wholesale offers, which are a precondition for market liberalization and enabling efficient market competition.

In 2008, HAKOM took special account of the quality and availability of universal services. Universal services must be available to all end users at an affordable price in the entire territory of the Republic of Croatia, on the basis of users' requests, irrespective of their geographical location. The operator of universal services has drawn up proposals for tariff packages for users with special needs and users with low income, and for the prices of 988 services to which the Council of HAKOM has given consent.

4.2.1. Standard interconnection offer

In 2008, HAKOM initiated the process of changing the HT standard offer for the provision of interconnection services concerning the price of call termination.

The aforementioned process has been finished in the following way:

- the price of call termination on the local level has been decreased from HRK/per minute 0.056 to HRK/per minute 0.048 and from HRK/per minute 0.028 to HRK/per minute 0.024 during low traffic hours (decrease of 14.3%);
- the price of call termination on the regional level has been decreased from HRK/per minute 0.095 to HRK/per minute 0.075 during high traffic hours and from HRK/per minute 0.0475 to HRK/per minute 0.0375 during low traffic hours (decrease of 21%).

HAKOM believes that the aforementioned decrease of prices, as an appropriate regulatory measure, shall enable further market liberalisation which should in the end have a positive effect on the economy as a whole.

4.2.2. HT offer for leasing electronic communications lines

At the end of 2007, the Council of HAKOM reached a decision ordering the HT company to change its Minimal offer of telecommunications lines to lease in such a way that the HT offer for the wholesale of leased electronic communications lines is added to the aforementioned Minimal offer. The Council of HAKOM adopted this decision for the purpose of further liberalisation of electronic communications market, thus for the first time defining wholesale conditions for leased electronic communications lines.

The purpose of the wholesale offer of lines was to replace all existing operator contracts concluded with HT concerning the leasing of electronic communications lines and to enable operators the use of electronic communications lines leasing service at wholesale prices, while keeping the same or better business conditions they had using the service of electronic communications lines leasing on the retail level.

HAKOM has analysed the implementation of the aforementioned offer in effect and has reached the conclusion that, for the purpose of ensuring and encouraging efficient and sustainable market competition with equal possibilities for all market participants, and of ensuring non-discrimination, transparency, objectivity and cost-orientation of prices, it is necessary to change the existing minimal offer in the part referring to the wholesale offer of lines. Taking into account the state of the Croatian electronic communications market, in July 2008 HAKOM issued its consent to the new minimal offer to which changes have been made enabling further market development and efficient competition on the market of line leasing.

4.2.3. Standard offer for access to unbundled local loop

At the beginning of 2008, the amended HT standard offer for the service of access to unbundled local loop entered into force, enabling new operators the use of expanding of mobile and access technologies. The procedures of transfer from one beneficiary operator to another have been additionally defined, as well as other procedures necessary during unbundling of local loop. The Council of HAKOM increased the amount of fees to be paid to new operators by HT in case of delay in the supply of the service provision of unbundling of local loop.

In July 2008, HAKOM amended the HT standard offer for the service of access to unbundled local loop in the following way:

- HT must, at the request of the operator (who is also the interconnection operator), offer the collocation for interconnection services;
- deadline within which HT must establish collocation extension and associated procedures has been set, simplifying and accelerating the extension process of the existing collocations;
- new fees which HT must pay in case of delays in the realisation of collocation extension have been set;
- the existing fee that HT was obligated to pay in case of delays in the realisation of physical collocation has been extended to all other types of collocations and a new fee has been introduced for the case of subsequent rejection of previously accepted requests for unbundling of local loop;

- the fee for the working hours of HT employees on the installation, building, pulling in of lines, cabling, connections, measuring, construction works and designing has been reduced by approximately 8 % ;
- HT has been asked to submit for consent the standards for technical solutions which are a part of the specification of prices for access to unbundled local loop service, which is to added as an appendix to the subject standard offer.

The aforementioned amendments to the standard offer represent activities on which HAKOM is working, on the basis of systematic observation of problems appearing in practice and of researching the needs of access to unbundled local loop service market, for the purpose of better and faster development and regulation of the relevant market.

4.2.4. Standard offer for providers of value added services (060) and for the needs of providing tele-voting service (061)

In June 2008, the Council of HAKOM granted consent to the new HT standard offer for providers of value added services. In case of uncollected debts for value added services, the service provider shall not disconnect access to all value added services, as was the case with the previous standard offer, but shall enable barring calls only to those numbers for which uncollected debts exist (selective approach). HAKOM considers this standard offer to be fair both to users and to service providers, as one of the HAKOM's tasks is to promote market competition by preventing the distortion or limiting market competition.

All other changes to the standard offer for providers of value added services (060) enable efficient and competitive development of value added services in Croatia. Market liberalisation indicator is the fact that providers of value added services have increasingly started to use new operators of fixed networks as access operators.

In July 2008, the Council of HAKOM granted consent to the standard offer for providers of value added services for the needs of providing tele-voting services (061). By 2008, the aforementioned offer had not been present on the market. With the aforementioned decision, HAKOM enabled service providers to offer tele-voting services on the market, i.e. services which require processing of large number of votes within a short period of time. HAKOM adopted the aforementioned standard offer seeing that the technical solution in the standard offer for providers of value added services (060) does not support the provision of such services, and for the purpose of further efficient development of market competition of this part of the market.

4.3. INTERNET ELECTRONIC COMMUNICATIONS SERVICES

The total number of Internet users in Croatia has reached the number of 2 244 420 users, making subscriber density of 50-60% when compared to the total number of Croatian citizens.

The main strategic goal of the Croatian Government concerning broadband Internet access was to create broadband port density of at least 12% when compared to the number of citizens by the end of 2008, meaning that the number of broadband ports in the Croatia within this period should have reached a minimum of 500 000.

In 2008, significant increase in the number of broadband Internet users was recorded, reaching 524 683 users in fixed network at the end of 2008, making the density of 11.83% when compared to the total number of Croatian citizens. It should be emphasized that the

number of broadband Internet users via mobile communications network at the end of 2008 was 158 524 users, making the density of 3.57% when compared to the total number of Croatian citizens. The total number of broadband Internet users is 683 207, and the total density of broadband Internet users 15.66%.

The total number of broadband ports in 2008 shows an increase of 35.57% when compared to the year 2007. The decrease of prices of broadband Internet access, wider offer of user packages and further increase in the number of users is expected on the broadband Internet access market.

The assignment of grants in the areas of special state concern and hill and mountain areas has contributed to the increase of broadband users in 2008. The implemented measures have improved the development of transfer and access infrastructure for broadband Internet access and the inclusion of local and regional self-government in the development of the Internet. The number of Internet connections realised in 2008 on the basis of the tender for the assignment of general grants for the development of broadband infrastructure in the areas of insufficient interest for the development and investing in broadband Internet access infrastructure conducted by HAKOM was 15 310. Furthermore, HAKOM has conducted the “e-islands” project, directed at the assignment of grants for the development of broadband Internet access infrastructure for the connection of parent and regional elementary schools on the islands into the CARNet network and the establishment of e-learning system. This has facilitated the teaching process, decreased the need to travel to classes and enabled better integration into the learning process.

4.3.1. Appendix to the Standard offer for Internet access providers, referring to broadband Internet access (bitstream access)

At the session held at the end of December 2007, the Council of HAKOM granted to the HT Company consent to the Appendix to the HT Standard offer for Internet access providers for the provision of wholesale ADSL (Asymmetric Digital Subscriber Line) access service and for the provision of ADSL transport service. Upon adopting and implementing the aforementioned standard offer, HAKOM continued to follow whether the prices related to the provision of broadband Internet access services are well founded.

Subsequently, HAKOM amended the wholesale prices within ADSL transport service by a decision adopted in April 2008 in such a way, that the fee for the used network capacity within the General terms for the provision of ADSL transport service was significantly reduced from 900.00 HRK/Mbit/s to 392.00 HRK/Mbit/s. In addition, the Council of HAKOM ordered HT to harmonise the monthly and one-off fees for TDM (Time-Division Multiplexing) lines within the General terms for the provision of ADSL transport service with the prices from the HT offer for the wholesale trade of leased electronic communications lines, and to include the possibility of using the lines of Ethernet technology into the aforementioned General terms.

The aforementioned fee amendments act favourably on the further development of supply and demand of the broadband Internet, which is noticeable from market indicators on increased number of users.

4.4. ELECTRONIC COMMUNICATIONS SERVICES IN MOBILE COMMUNICATIONS NETWORK

The mobile communications market in Croatia in 2008 was marked by the increase of user density in mobile communications networks, which at the end of 2008 showed an increase of 132.55% of ported numbers, increase of the GSM (Global System for Mobile Communications) and UMTS (Universal Mobile Telecommunications System) signal coverage and further strengthening of the market share of the third operator of mobile communications network Tele2.

In 2008, the liberalisation of the electronic communications services market in the mobile communications network is noticeable, particularly in the wider offer of services offered to end users and significantly lower prices at which the services are offered. The competitiveness of this market is also noticeable in the number of ported numbers of which there were 66 100 at the end of 2008, in comparison to the end of 2007 when there were 34 765 ported numbers. The aforementioned service was introduced on the basis of HAKOM's decision and has led to increased competition between operators on the market who are fighting for users with numerous service offers and lower prices, whereas the users were given a chance to choose the operator that best meets their needs at any moment, while keeping their subscriber number. Broadband Internet access in mobile networks has developed increasingly in 2008.

The third operator of mobile communications network Tele2 continued with the strategy of attracting private and business users in 2008 offering low prices of electronic communications services which they offer through numerous tariff packages. By using this strategy, in addition the aforementioned user migration, Tele2 has also influenced the increase of user density in mobile communications networks. In 2008, Tele2 offered its users the mobile Internet service, thus additionally enriching the choice of its retail services. In 2008, the Tele2 operator changed the national roaming operator exclusively on the market level – since June 2008, Tele2 is using the national roaming service via T-Mobile Hrvatska d.o.o.

The area of business users in 2008 was marked by further development of personalised tariff packages and services giving business users the possibility to choose precisely the service which best fits the nature of their business. By doing so, the user's expenditures for electronic communications services are reduced and the way of doing business is improved. In the long run, these realised savings shall influence the increase of productivity and competitiveness of the Croatian economy.

4.4.1. Standard offers for access to mobile communications network and interconnection

In July 2008, the Council of HAKOM granted consent based on the decision adopted in June 2008 to the new standard offers for network access and interconnection of operators of mobile communications networks with significant market power:

- Standard T-Mobile-a Hrvatska d.o.o. offer for network access and interconnection for operators and service providers authorised for the provision of services in Croatia;
- Standard VIPnet d.o.o. offer for network access and interconnection for operators and service providers authorised for the provision of services in Croatia.

In the aforementioned offers the Council of HAKOM amended the parts regulating the relation of operators with significant market power and service providers of value added services. The operator providing the service of calculation and billing has the right to charge service providers only for the real value of the billing risk. HAKOM has prescribed the methodology for the determination of real risk of billing on the basis of which the prices for the aforementioned services have been set, taking into account the market data for the entire year.

The Council of HAKOM has determined that, in addition to the aforementioned amendments, a new platform for the provision of non-voice value added services is to be incorporated into the T-Mobile standard offer for network access and interconnection, enabling value added service providers to provide innovative services and services of better quality to their uses.

In December 2008, HAKOM initiated the process of amending the standard offers of T-Mobile and Vipnet, operators with significant market power, concerning the price of call termination. The named process was completed in February 2009 in such a way, that the price of call termination in the network of the aforementioned operators was reduced from HRK/min 0.786 to HRK/min 0.672 (decrease of 14.5%).

HAKOM believes that the amendments to standard offers and the aforementioned reduction of prices, as an appropriate regulatory measure, shall enable further liberalisation of the electronic communications market which should in the end have a positive effect on the economy as a whole.

4.5. COST ACCOUNTING PROJECT

In 2008, HAKOM initiated the accounting separation and cost accounting project. The purpose of the implementation of the accounting separation and cost accounting project is the analysis of information coming from the official accounting system of operators, which show the operator's business activities by a certain activity as if it were functioning as a separate business unit. In order to prove the justification of prices for electronic communications services susceptible to regulation, or their connection to the associated costs, operators with significant market power need a cost monitoring system which would make the prices of their services transparent. The need for transparency of business operation includes accounting separation, i.e. drawing up of separate financial statements of operators with significant market power for activities for which they are designated as operators with significant market power. Cost accounting refers to a set of rules and procedures ensuring the distribution of costs, revenues, assets, obligations and capital to individual activities and services, particularly taking into account direct and indirect costs.

The cost accounting system enables the implementation of the accounting separation obligation and control of cost-orientation of prices for the purpose of preventing subsidizing between operators, too high prices or non-efficient business operation.

HAKOM expects the implementation of accounting separation to greatly influence the increased competition and further development of market competition.

By a Decision adopted in November 2008, the Council of HAKOM ordered HT to implement accounting separation in the manner and respecting the deadlines determined in the "Instructions on accounting separation and cost accounting" which make a constituent part of the Decision.

The Decision also obligates HT to draw up and publish regulatory financial statements for 12 segments within the framework of three markets on which it had been designated as the operator with significant market power.

Considering the fact that the establishment of accounting separation and cost accounting systems is a complex and lengthy process, it has been set that it should be implemented through transition phases from non-revised financial statements for the year 2008, based on historic cost accounting and fully distributed costs for the needs of accounting separation and calculation of service unit costs, over revised financial statements for the year 2009 based on historic cost accounting and fully distributed costs for the needs of accounting separation and calculation of service unit costs to revised financial statements for the year 2010 and every following year, based on historic cost accounting and fully distributed costs for the needs of accounting separation and on current cost accounting and LRIC accounting methodology for the needs of calculation of service unit costs.

4.6. TELEVISION NETWORKS

In 2008, HAKOM continued its intensive activities on planning and ensuring conditions for putting into operation the future DTV network, while activities related to the re-planning and planning of analogue television (hereinafter: ATV) network had been reduced to a lesser extent and were primarily directed at creating space for the future DTV network.

Technical parameters for testing terrestrial DTV were defined in even larger extent, primarily for DVB-T (Digital Video Broadcasting Terrestrial), but also for testing the DVB-H (Digital Video Broadcasting – Handheld) technology and HDTV (High-definition television) technology. Within the said activities conducted in 2008, HAKOM ensured technical conditions and prepared technical parameters for two DVB-T multiplexes, two SFN networks (Single Frequency Network) in the entire territory of Croatia. This creates the basis for the switch-over from analogue to digital broadcasting of television programmes and the realisation of digital dividend in Croatia. Furthermore, technical conditions have been ensured and parameters issued for two DVB-T HD multiplexes in Zagreb, Split and Rijeka, and one DVB-T HD multiplex in Osijek, which enabled experimental broadcast of HDTV signal from UEFA EURO 2008. Additional technical conditions have been ensured and parameters issued for experimental operation of two DVB-H multiplexes in the Zagreb area. Considering the fact that for the introduction of two DVB-T multiplexes it was necessary to change the channels of ATV stations due to interference, all necessary channel changes have been made, thus freeing a part of the radio frequency spectrum for the introduction of the first two digital television multiplexes.

On 31 July 2008, the Croatian Government adopted the Analogue to Digital Switch-over Strategy. HAKOM participated actively in the work of the working group for the preparation of the Strategy. HAKOM's administrative service offered significant help and contribution to the drawing up of specific analyses and documents, used in the drawing up of the text of the Strategy, primarily in the technical and technological part. In accordance with the adopted Strategy, HAKOM has prepared the proposal for the tender documents for granting the license for the use of radio frequency spectrum (hereinafter: RF spectrum) for the first two multiplexes for DTV in the territory of the Republic of Croatia. Public consultation was organised on the proposal of tender documents and received proposals and comments partially included into the amendments to the tender documents.

Technical parameters for the renewal of the existing concessions for the activities of television were regularly submitted to the Agency for Supervision of Electronic Media. Within the procedure of analysis of requests for granting licenses, the tasks of control of projects and parameters from the requests were regularly performed, in accordance with the defined radio station parameters. The aforementioned were corrected where necessary.

On the basis of the results of re-planning of the existing and planning of new TV networks and of international harmonization of frequencies, HAKOM has regularly updated the RF spectrum database for television, which is publicly available on HAKOM's web site.

On the Croatian level, HAKOM processed a large number of concessionaires' requests for amendments to the conditions of use of TV radio stations and inquiries from the Agency for Supervision of Electronic Media concerning technical parameters. Within the framework of international cooperation, HAKOM submitted and analysed a total of 259 requests for the harmonisation of use of RF for TV radio stations, 16 publications in ITU (International Telecommunication Union) circular DVDs and has exchanged data concerning RF spectrum management for TV with international organisations.

Within the framework of international harmonisation of frequencies, radio stations published via ITU BRIFIC were analysed. HAKOM initiated the process of international harmonisation of Croatian non-harmonised DVB-T/TV radio stations with the neighbouring countries which are necessary for a successful switch-over from analogue to digital broadcasting. The analysis of requests from the competent regulatory bodies in Austria, Bosnia and Herzegovina, Hungary, Slovenia, Serbia and Montenegro has been completed. HAKOM has successfully completed the harmonisation of channels for radio stations for networks of the first two DVB-T multiplexes. The necessary alternative frequencies for analogue TV transmitters to be interfered with upon putting the DVB-T network into order have also been successfully harmonised.

4.7. RADIO NETWORKS

Despite heavy congestion of the VHF radio frequency band II, used by radio with frequency modulation (hereinafter: FM), HAKOM continued the process of planning FM networks radio stations in order to ensure increased coverage of the existing concessionaires and to ensure frequencies for new concessions. HAKOM has conducted the analysis and re-planning procedure of HR 3 network, as well as of networks of local Croatian Radio programmes. By the end of 2008, the re-planning of base transmitters of the aforementioned networks was successfully completed. Tasks related to the frequency harmonisation of short-wave and middle-wave radio broadcasts have also been continued.

HAKOM regularly submitted to the Agency for Supervision of Electronic Media technical parameters for the renewal of 70 existing and, where possible, inviting for new radio concessions.

Within the procedure of analysis of requests for granting licenses, the tasks of control of projects and parameters from the requests were regularly done, in accordance with the defined radio station parameters. The aforementioned were corrected where necessary. Numerous inquiries from concessionaires primarily related to the amendments to the conditions of use of FM radio stations and to additional coverage, as well as amendments to the technical requirements of the existing concessions were answered.

On the basis of the results of re- planning of the existing and planning of new FM networks and of international harmonization of frequencies, HAKOM updated the RF spectrum database for radio, which is publicly available on HAKOM's web site.

HAKOM noticed a decrease in the audio range of some radio stations in the coastal area, which was additionally confirmed by measurements. On the basis of it, certain activities within HAKOM's competence were taken for the purpose of eliminating these interferences, as presented in Chapter 4.10.

On the Croatian level, a large number of requests from concessionaires for amendments to the conditions of use of FM radio stations and inquiries from the Agency for Supervision of Electronic Media concerning technical parameters were analysed. Within the framework of international cooperation, HAKOM submitted and analysed a total of 454 requests for the harmonisation of frequencies. Analysed radio stations were published in ITU BRIFIC, as well as Croatian FM transmitters. HAKOM regularly seasonally registered short-wave radio stations in the International Telecommunication Union. The procedure of international harmonisation of radio stations which were not harmonised with the neighbouring countries Austria, Bosnia and Herzegovina, Montenegro, Hungary, Italy, Slovenia and Serbia was initiated, and requests from the competent regulatory bodies of the neighbouring countries were answered.

4.8. ADDRESSING AND NUMBERING RESOURCES MANAGEMENT

The success of regulation and the increase of electronic communications market competitiveness is noticeable in the number of ported numbers, of which there were 269 136 in the fixed network and 66 100 in the mobile communications network at the end of 2008. This constitutes a significant increase of 73% in the fixed network and 90% in the mobile communications network when compared to the previous year. With the possibility of porting the number, an administrative obstacle for users to switch from the network of one operator into the network of another operator was eliminated and the possibility was given to electronic communications service users to choose the operator that has the best offer adjusted to their needs.

The task of HAKOM is the management of the addressing and numbering resources in Croatia for the purpose of ensuring efficient use of addresses and numbers. The following tasks are performed by HAKOM:

- assignment of addresses and numbers to operators on the basis of the Addressing Plan and the Numbering Plan,
- control of the use of addresses and numbers,
- control of number portability and carrier pre-selection,
- monitoring the work of the Central basis of ported numbers (hereinafter: CBPN) and taking care of the changes necessary to keep it functional.

In 2008, the upgrading of the CBPN was continued and it included the integration of new functionalities. The upgrading of the programme in 2008/09 includes the enabling of abandonment of requests for operators, publicly available data base with all numbers, possibility to delete new operators – once all numbers have been ported to the new recipient, deleting operators who have no ported numbers, making the numbers idle, porting all numbers with the operator and deactivating them to the new chosen recipient,

implementing the additional menu with rejected requests, administrative transfer of rights of entire blocks in the numbering basis.

4.9. ELECTRONIC COMMUNICATIONS INFRASTRUCTURE AND CONDITIONS FOR CONSTRUCTION

Construction and access to electronic communications infrastructure presents a significant factor in the liberalisation of the electronic communications market. In February 2008, the Council of HAKOM adopted a Decision on the Conditions of shared use of the constructed telecommunications ducts. Since that moment there have been no cases of negative technical decisions with which HT would deny the existence of free space and refuse the conclusion of contracts on leasing electronic communications infrastructure and associated facilities, which has significantly increased the possibilities for new operators to access new users.

In the procedures related to shared use of electronic communications infrastructure and associated facilities, in 2008 HAKOM primarily performed the following tasks:

- analysis of requests for collocation and shared use of electronic communications infrastructure, and the establishment of the existence of technical conditions for shared use of infrastructure;
- mediation and analysis of drawn up technical arrangements in disputes related to collocation;
- establishment of technical requirements for collocation and unbundling of local loop;
- drawing up of proposals for regulations, acts, instructions and forms necessary for shared use of electronic communications infrastructure.

For the purpose of efficient encouraging of electronic communications development, HAKOM has undertaken a number of activities to create preconditions for a rapid and undisturbed development of mobile communications networks of all operators, as well as for the construction of ducts by spatial planning. The largest contribution to these efforts are county and lower level physical plans which value the share of electronic communications in the total economic and social development of observed areas. Through systematic efforts and proposals HAKOM influenced a significant improvement of physical planning documents on all levels. Seminars for authorised organisations for drawing up physical plans were held, where the significance of planning electronic communications infrastructure in physical plans was presented, in order to realise the preconditions for the improvement of economic, social and other starting points of sustainable development in the territory of Croatia.

Furthermore, HAKOM has performed the following tasks related to requirements for construction:

- carrying out of procedure for issuing requirements for construction or concept design certificate in accordance with the Physical Planning and Construction Act (hereinafter: PPCA);
- participation at conferences for the evaluation of concept designs in accordance with the provisions of the PPCA;

- carrying out of procedure for issuing certificates on conformity of the main design with the construction requirements and the concept design;
- participation in the work of commissions for technical inspection of buildings;
- participation at conferences for the evaluation of concept designs and main designs at the Ministry of Environmental Protection, Physical Planning and Construction (hereinafter: the MZOPUG) in the procedures of issuing site development and building permits;
- giving guidelines for the contents of physical planning documents spatial plan, urban development plan and detailed plan in the part related to planning electronic communications in accordance with the ECA;
- participation in prior and public consultations on spatial plans;
- giving opinions on final proposals for spatial plans.

In the realisation of the initiative for shared use of electronic communications infrastructure, projects of a shared mast for installing several GSM/UMTS antenna systems and pointed radio links of mobile communications operators have been typified at the MZOPUG. The mast is a standard 48/54 m tall mast for wind zones and water/land foundation requirements. By consistent application of the principle of non-discrimination towards mobile communications operators, it has been achieved that the mechanisms of mutual agreements on the sites and joint appearance via Mobile Communications Association of Croatia (hereinafter: UPKH) are beginning to function.

4.10. SUPERVISION AND CONTROL, DETERMINATION AND ELIMINATION OF INTERFERENCE

Supervision and control is the basic manner of determination of situation in the field and of the implementation of regulatory measures on the electronic communications market. In addition to supervision and control, during the entire 2008, HAKOM carried out systematic measurements of the RF spectrum and identification of radio stations from the neighbouring countries for the purpose of protecting the RF in Croatia. Measurements were been conducted for the needs of frequency planning and international harmonisation of the use of RF.

Systematic measurements were conducted daily from 4 centres for control and measuring and 6 remotely controlled stations for control and measuring. Measurements were periodically conducted from measuring vehicles at the previously set locations, thus rounding the spectrum control system considering the measuring capabilities of the fixed part of the control and measuring system. In addition to the daily control, a large number of supervisions, controls and measurements was carried out, for the purpose of determining the meeting of technical requirements and the implementation of regulatory measures. During 2008, HAKOM carried out extensive measurements on four occasions, for the purpose of supervision and control of use of microwave links, the operation of broadcasting radio stations in accordance with the granted licenses, operation of FM radio stations in accordance with the technical standard prescribing the deviation of frequency modulated signal and of RF spectrum supervision in the coastal area of Croatia, with emphasis put on the use of frequencies by Italy.

Special attention was given to interferences, particularly in the coastal area in radio and television frequency bands. Winter and spring months with weaker spreading of electromagnetic waves were used as preparation for extensive measurements in the summer months, the result of which are 113 reports of interferences to the Italian competent regulatory body. Unfortunately, the behaviour of the Italian competent regulatory body to the interference reports showed lack of will for their elimination, which resulted in HAKOM's letter to the ITU Secretary-General, the Committee on Information, Information Technology, and Media of the Croatian Parliament and to the Foreign Affairs Ministry explaining the aforementioned problem. By the end of 2008, out of 113 reported cases of interference, the Italian competent regulatory body eliminated interference in only one case, which was confirmed by measurements. Coordination with the rest of the neighbouring countries was appropriate and all interferences were eliminated.

During 2008, HAKOM carried out technical inspections of radio stations and technical inspections of meeting the conditions from the granted concessions for the use of frequencies for the provision of electronic communications services in the fixed network and concessions for the provision of activity of radio and television.

HAKOM's electronic communications supervisors carried out expert supervision. In their work, they cooperated closely with electronic communications inspectors from the competent ministry. In addition to the regular maintenance and repair, HAKOM is systematically improving the measuring system in order to increase functionality and enable signal measuring of new technologies. The system of stations for control and measuring has not been fully built yet so the project from the previous years was continued by HAKOM. In 2008, the right to build on the land owned by the Republic of Croatia was granted, fulfilling the conditions for issuing building permit for the centre for control and measuring Rijeka and leading to obtaining valid building permit for the station for control and measuring Veliki Bokolj.

5. REGULATION OF POSTAL AND COURIER SERVICE MARKET

Before the entry into force of the ECA in July 2008, which stipulated the establishment of a joint regulatory body for electronic communications and postal services – HAKOM, regulatory activities regarding the provision of postal and courier services were carried out by the Council for Postal Services (hereinafter: the CPS). With the entry into force of the ECA, the CPS stopped operating, and all regulatory activities regarding the provision of postal and courier services are carried out by HAKOM, in accordance with the Postal Act (hereinafter: the PA).

The most important tasks from the field of postal and courier services in 2008 were related to the procedure of determination of prices for reserved postal services, expert supervision over the implementation of the Postal Act provisions, the procedure of granting consent to the operator's bylaw on access to public postal network, the implementation of the "Survey of satisfaction and use of postal and courier services in the Republic of Croatia" project, the separation of business activities, i.e. distribution of income and cost distribution of the public operator, monitoring the market of postal and courier services in Croatia, collecting and analysis of statistical data on the market and granting consent to General business terms and conditions of the public operator and other providers of postal and courier services.

5.1. Licenses and applications for the provision of postal and courier services

The only provider of universal postal services in Croatia at this moment is HP. Pursuant to the provisions of the PA, HP has the right and obligation to provide all universal postal services in the entire territory of the Republic of Croatia. In 2008, no application for the provision of universal postal services was received, so no license for the provision of these services was issued.

For the provision of postal services which are not universal and the provision of courier services a legal entity must submit an application to HAKOM. In 2008, two valid applications were received and two providers were deleted from the Records of Providers, one for deletion from the court register and the other for the declaration of the termination of provision of declared services.

At the end of 2008, there was a total of sixteen registered providers of postal and courier services in Croatia. Out of the sixteen, fourteen were active.

In Chapter 3 there is a list of all registered providers of postal and courier services in the Republic of Croatia

5.2. Granting Consent to General Business Terms and Conditions of Postal and Courier Service Providers

In 2008, HP submitted amendments to General business terms and conditions on two occasions. HAKOM gave its prior consent to the amended text of General business terms and conditions in January and October 2008. In addition to the public operator, five other registered providers were given consent to General business terms and conditions in 2008.

5.2.1. Determination of Prices for Reserved Postal Services as Proposed by HP, Taking Note of the Postal and Courier Service Prices and Price Monitoring

In 2008, HP applied prices for reserved postal services defined by the temporary regulatory body decision adopted in February 2007. In October 2008, HP submitted the Decision on the introduction of new weight rate for letters in domestic and international traffic to HAKOM, as well as the proposal for the prices of letters in the domestic traffic. The specified decision introduced new weight rates, to 50 grams and from 51 to 100 grams, and terminated the existing weight rates to 20 grams and from 21 to 100 grams. In November 2008, HAKOM adopted a new temporary decision, defining prices for reserved postal services.

5.2.2. Determination of the Manner of Separation of Business Activities of HP regarding Calculation

HP is obligated to ensure accounting management of reserved postal services, for each service separately from the non-reserved postal services. Where non-reserved postal services are concerned, HP is required to ensure accounting management of universal postal services separately from the non-universal postal services and courier services. In the implementation of the regulator's decision, obligating the public operator to the separation of business activities regarding their calculation, the public operator is obligated to apply organisational and accounting measures enabling unambiguous determination and regular monitoring of revenue and expenditures for every type of provided service, and to submit to the regulatory body in writing a description of

accounting measures to be applied for the purpose of fulfilling obligations from the decision.

In 2008, the public operator submitted data on the distribution of revenue and expenditures for the year 2007. According to the submitted data for 2007, it is clear that the public operator applied the new manner of distribution of revenue and expenditures when compared to the previous year, in an attempt to fulfil the aforementioned obligations. However, despite all undertaken measures and procedures, and related to the distribution of revenue and expenditures, it is the regulator's opinion that the public operator has not fulfilled all obligations stipulated by the PA, the Ordinance on standards, criteria and the procedure for the exercise of the public operator's right to indemnification from State funds and from the CPS 's decision on the determination of the manner of separation and managing business activities.

5.2.3 . Granting Consent to Public Operator's General Act and Resolution of Disputes Regarding Access to Public Postal Network

In June 2008, the public operator submitted the first draft of the Ordinance on access to public postal network. In July it proposed amendments to it for the purpose of determining basic elements of the bylaw stipulated by the PA, and conditions and prices for access to the public postal network. In September 2008, the public operator submitted amended draft of the Ordinance on access to public postal network, which lacked elements necessary for HAKOM granting consent. In October 2008, HAKOM replied to the new draft proposal of the Ordinance on access to public postal network. In accordance with all requested amendments, a new draft proposal of the Ordinance on access to public postal network was submitted to HAKOM in November 2008. Not all HAKOM's remarks were taken into consideration, so granting consent to the general act on access to public postal network is still in progress.

No provider in the Republic of Croatia has yet applied for the license for the provision of universal services or for access to public postal network. HAKOM has not yet resolved any disputes concerning access to public postal network.

5.2.4. Performing Expert Supervision

Before entry into force of the PA, expert supervision concerning the supervision of the type, scope and quality of the provision of postal and courier services was within the competence of HAKOM. In performing expert supervision, the supervisor makes a report and submits it to the postal inspector in the Directorate for Transport Inspection at the Ministry of the Sea, Transport and Infrastructure. With the entry into force of the PA HAKOM's competence was expanded in the sense of strengthening supervision authority over the implementation of the provisions of the PA. The authority of the postal supervisor and authorized employee of HAHOM's administrative service performing the task of HAKOM's expert supervision have also been extended.

By July 2008, expert supervision over seven providers of postal and courier service was performed. With six providers the expert supervision was completed and reports made. In one case the supervisor was prevented from further provision of expert supervision. The postal inspector in the Directorate for Transport Inspection at the Ministry of the Sea, Transport and Infrastructure was informed of the disability to perform expert

supervision, as well as of determined irregularities, and motion for initiating measures and adopting a decision in accordance with the then valid PA was given.

5.2.5. Annual Report on Quality of Universal Service Provision of Public Operator

In April 2008, HP submitted the annual report on the state of quality of universal postal services provision for 2007 (hereinafter: the Report) to the regulatory body. Results of conducted measurements on transport quality of letters in the domestic and international traffic, as well as data on the total number of received and resolved complaints in domestic traffic are to be found in the Report. Seeing that the Report did not contain all information prescribed by the Ordinance on general conditions for provision of postal services and that the submitted tables were not accompanied by the necessary explanations of the given data, the necessary amendments and explanations were requested from the public operator.

In June 2008, the public operator HP submitted the amended annual report on the state of quality of universal postal services provision for 2007. On the basis of indicators declared in the Report and of the results of measurements by representatives of the regulatory body's administrative service it has been established that the quality of transfer of priority letters in domestic traffic is not in accordance with the provisions of the relevant Ordinance, whereas the quality of transfer of non-priority parcels is in accordance with the aforementioned. The largest deviations in the transport quality were recorded with priority letters sent in urban areas and between them.

5.2.6. Monitoring the Development of Postal Activity and Analysis of Postal and Courier Service Market and Ensuring Equal and Efficient Market Competition in the Market of Postal and Courier Services

As the national regulatory body, HAKOM was the project holder for the project of the collection of statistical data from the providers of postal and courier services in the Republic of Croatia. Part of data was collected within the framework of statistical research of postal and courier service market launched by the European Commission and EuroStat (Statistical Office of the European Communities) in cooperation with CERP (European Committee for Postal Regulation), which is a part of CEPT. HAKOM used the collected data for monitoring and comparison of the number of provided services, income, number of employees and other data on the market, as well as for the insight into the state of the postal and courier service market in Croatia in comparison to previous years, and for the comparison of markets in Croatia with the markets of postal and courier services in other countries. The overview of the market development of postal and courier services is shown in Chapter 3.

5.2.7. Granting Consent to Public Operator's Decision to Close Down or Move Postal Office and Taking Note of Intention to Temporarily Close and Temporarily Move for a Period longer than 60 days and Re-Open the Public Operator's Postal Office

In the course of 2008, the public operator closed down fourteen (14) post offices, one (1) of which is without delivery area and ten (10) of which are seasonal post offices. The public operator submitted a request for granting consent to closing down four (4) more post offices. HAKOM did not grant consent to the closing down of the specified offices,

but invited the public operator to re-examine the decision on the closing down. In 2008, the public operator notified HAKOM on its intention to temporarily close eight (8) post offices.

Based on the regulator's initiative, the Ordinance on the amendments to the Ordinance on the postal system of public operator was adopted in 2008. In accordance with the subject Ordinance, the public operator made a list of post offices which have terminated operation for a period longer than one year by the date of entry into force of the Ordinance, but have not been closed down with consent from the minister competent for the post or from HAKOM. The public operator was granted consent from HAKOM for the submitted list of post offices which are considered closed in accordance with the specified Ordinance. This solved the problem of post offices which have been closed for a number of years and were impossible to be seen as temporarily closed, as the element of temporariness did not exist.

5.2.8. Cooperation with Institutions in Postal System

During 2008, HAKOM participated in the work and cooperated with the organizations and institutions included in the postal system operation on the national and international level:

- Cooperation with the Ministry of the Sea, Transport and Infrastructure,
- Cooperation with the Ministry of Economy, Labour and Entrepreneurship,
- Cooperation with the Ministry of Foreign Affairs and European Integration,
- Cooperation with Central Office for Development Strategy and Coordination of EU Funds,
- Cooperation with the Croatian Standard Institute,
- Cooperation with the State Inspector's Office,
- Cooperation with the European Committee for Postal Regulation (CERP) and participation in the work of CERP working groups,
- Cooperation with The Internal Market and Services Directorate General,
- Cooperation with the Universal Postal Union (UPU).

5.2.9. Support to the Croatian Council for Postal Services Project as part of CARDS 2004 programme

The *Twinning* project "Support to the Croatian Council for Postal Services" within the CARDS 2004 programme was officially started in May 2007, and completed in March 2008. The project was focused on the strengthening of institutional capacities of CPS. The *twinning* partner was the German Federal Ministry of Economics and Technology, which entrusted the German Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway, the German regulatory body, with the implementation of the project.

The main objective of the project was to introduce, keep and promote efficient and sustainable market competition on the postal service market, ensure the implementation of laws concerning this field and strengthen HAKOM administratively, in order to make it function independently in the postal service sector in accordance with the *acquis communautaire*.

6. CONSUMER PROTECTION

During 2008, HAKOM continued with the activities related to consumer protection trying to ensure a high level of electronic communications consumer protection.

HAKOM's activities were primarily directed at:

- resolution of users' complaints and analysis of the complaints in order to establish the reasons for complaints and to improve measures for the protection of users of public communications services,
- drawing up executive regulations defining the manner of protection of users of electronic communications,
- preventive action by educating users via web sites and participation in radio shows enabling users to complain about their problems in using public communications services, get the necessary advice and instructions,
- ensuring the possibility of telephone contact with the employees, for the purpose of obtaining information concerning their specific complaints or help and instructions on what to do and how related to the problems they had while using public communications services.

In addition, HAKOM participated actively in the work of other state institutions on the projects dealing with user/consumer protection.

6.1. ANALYSIS OF USERS' COMPLAINTS TO BILLS AND QUALITY OF SERVICES

By establishing a Department for the protection of users and network security at the end of 2007, which defined the analysis processes of users' complaints, the efficiency of the Council of users of telecommunications services in the resolution of disputes with operators has increased. By introducing the programme for recording and analysing cases at the beginning of 2008, a comprehensive analysis of received complaints was enabled.

Some statistical indicators confirming a good direction of the organisation and defining tasks within HAKOM are listed hereafter.

The increase in the number of complaints (Figure 6.1) should by no means be interpreted as an entirely bad trend. Partially, it is definitely caused by a bad relationship between the operator (service provider) and users. On the other hand, it points to the fact that subscribers are far more aware of their rights and of possibilities and precise addresses they can go to for the purpose of protection, and the fact that confidence in HAKOM has grown. In addition, the analysis of complaints received by HAKOM points the operators to critical points in the service provision to which they should pay special attention and make efforts to eliminate these shortcomings, and gives HAKOM information on the basis of which it can intervene as the regulator.

The complaints refer to: a) complaints to the bills for public communications services and b) to the quality of public communications services. It can be noticed that over 70% of complaints refer to issued bills. This type of complaints increased by 65% when compared to the previous year and requires special analysis.

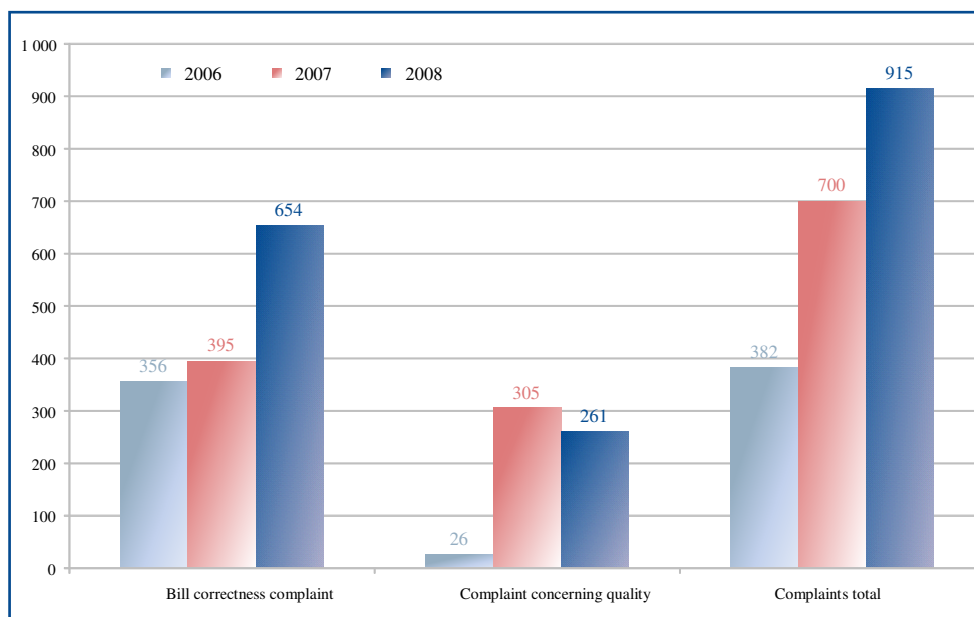


Figure 6.1: Number of complaints to the Council of users in 2008

Out of the total number of bill correctness complaints, as many as 60% are complaints to bills issued by value added service operators (Figure 6.2).

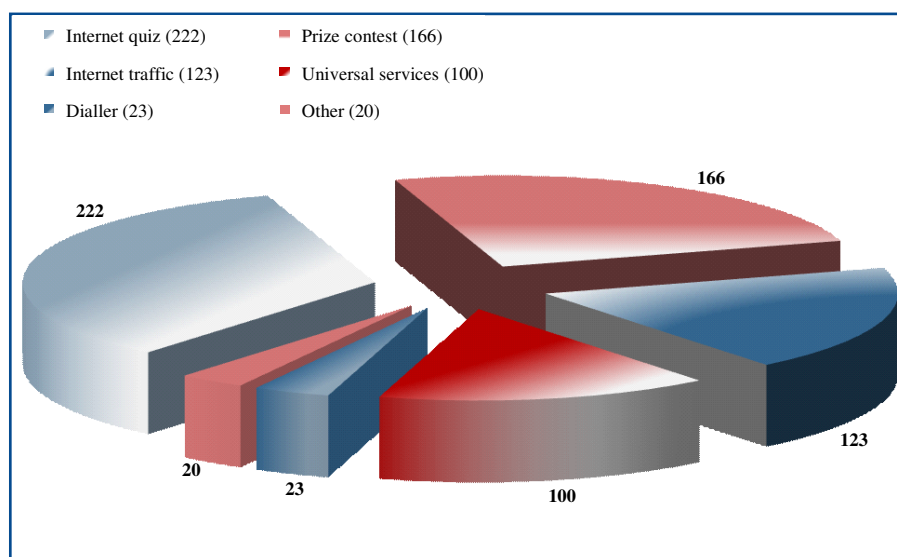


Figure 6.2: Structure of bill correctness complaints

The number of complaints to malicious programmes using computer modem to establish internet access, the so-called diallers, increased significantly in the last two years. This is primarily due to the intensified informing of users by HAKOM and to the introduction of protection programmes by the operators. However, the number of complaints concerning the bills issued by value added service operators is increasing significantly. The number of complaints concerning bills issued by value added service operators grew by 226% in the last year, whereas the increase compared to the year 2006 amounts to 7 660%.

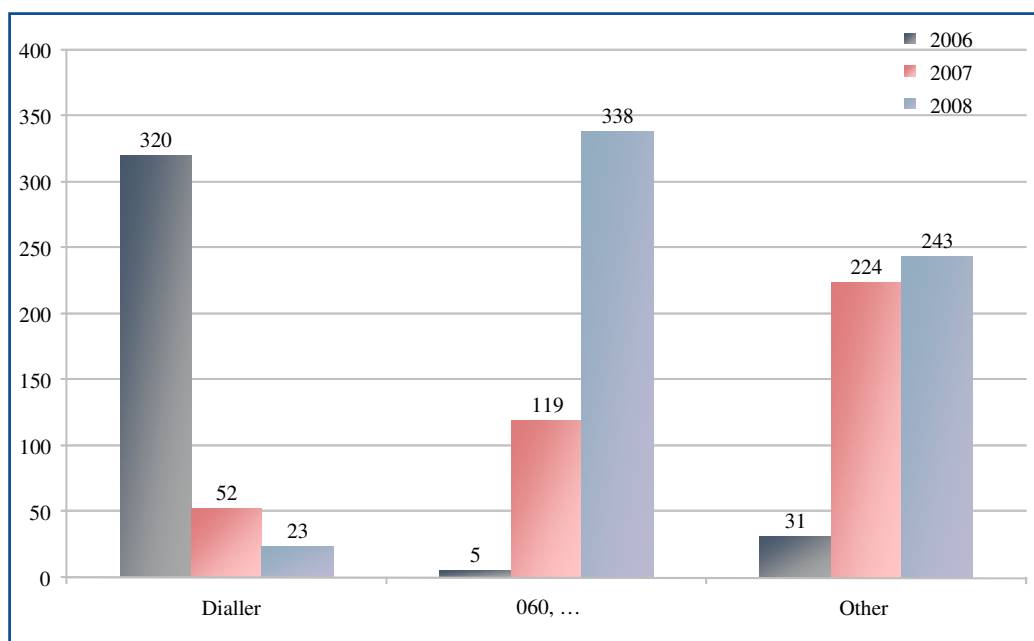


Figure 6.3: Overview of bill correctness complaints

It is encouraging that the number of complaints concerning the quality of services is decreasing and is 14.5% lower when compared to the previous year and relatively uniform in structure (Figure 6.4).

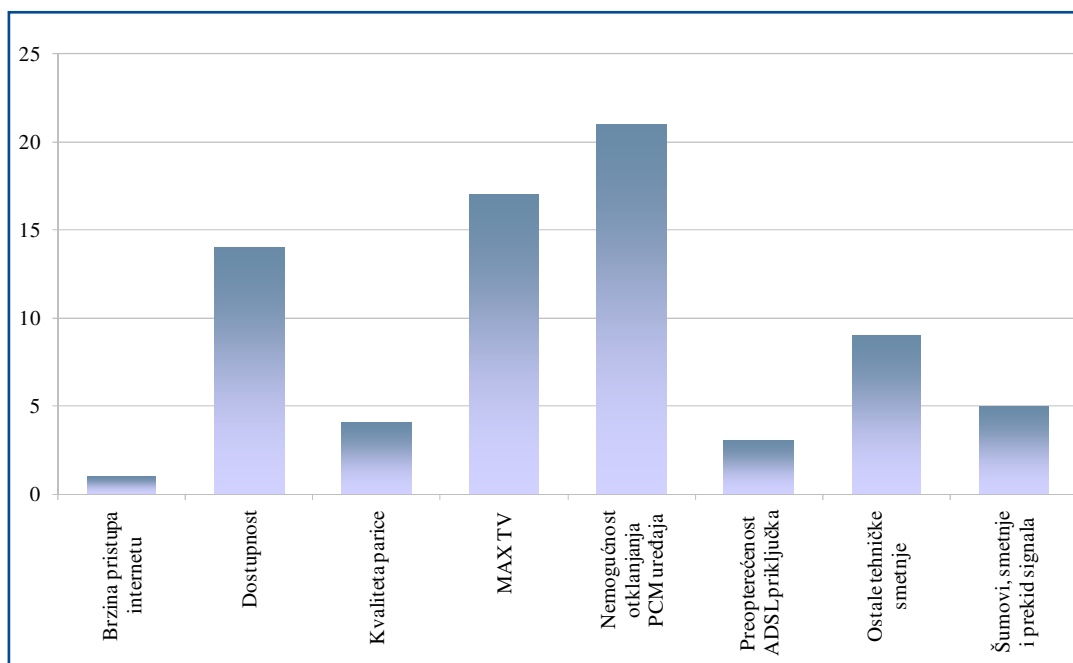


Figure 6.4: Overview of complaints concerning quality of services

As the number of complaints concerning the bills issued by value added services is extremely high, it was determined by individual analysis of received complaints that the

complaints mostly refer to prize contests and services realized by commercial TV broadcasters in various “interactive” quiz shows.

Two most often specified reasons for complaints were determined:

- absence of or obscured information on the price and the manner of charging for the service, misleading the subscribers on the issue of what they are charged for,
- subscribers’ claims of not having called the specified numbers at all, which may, if proved, indicate serious abuse.

The first reason lies within the competence of HAKOM, and decisions on the acceptance of complaints are regularly adopted upon verification. The second reason lies within the competence of other government institutions which should carry out investigatory actions in order to prove the subscribers’ claims.

On the basis of these discoveries, HAKOM particularly regulated the provision of value added services with the Ordinance on the manner and conditions for the provision of electronic communications networks and services and its Appendix 5 Code of Practice for operators of value added services.

6.2. NEW USER PROTECTION PRINCIPLES

The ECA changed the legal framework, significantly expanding the field of user protection. With its adoption, the role of HAKOM in the promotion of user service interests was emphasized, particularly in the following way: a) by ensuring high level of service user/consumer protection, b) by a simplified and user-friendly dispute resolution process, c) by promoting the provision of clear information and d) by meeting the needs of special social groups.

For the purpose of user protection, the ECA particularly regulates the provision of value added services. This group also includes value added services for which it has become clear that they represent a field in which users are insufficiently protected. The ECA stipulates the first instance and appeal resolution process of complaints concerning bill correctness and quality of service, obligatory for all operators, and observing the Consumer Protection Act. The ECA also provides the possibility of dispute resolution between subscribers and operators of public communications services before bringing charges before the competent court, where HAKOM has been authorised for the resolution.

Seeing that the content of value added services is not within the competence of HAKOM, HAKOM focused on the Ordinance on the manner and conditions for the provision of electronic communications networks and services, which regulates in detail the operators’ obligations concerning the protection of consumers against unwanted contents and the obligations concerning the transparency of prices and of conditions of service provision.

6.2.1. New approach to dispute resolution

In accordance with the Telecommunications Act, in the process of mediation between subscribers and operators of telecommunications services, the Council of Users of Telecommunications Services could only adopt an opinion on the manner of dispute resolution, which was not binding for the operators and the operators were not obligated to accept it. Users were often left to the operators’ arbitrariness and could only prove their claims in court proceedings, which is by no means a simple or user-friendly manner of resolution of this kind of disputes.

Pursuant to the ECA, HAKOM is competent for the resolution of disputes between subscribers and operators of public communications services. The new manner of dispute resolution gives HAKOM the right to adopt binding decisions ensuring high level of user protection, as the operator is obligated to act in accordance with the decision.

HAKOM resolves disputes in a transparent, objective and non-discriminatory manner, on the basis of the opinion of the internal organisational unit for the protection of rights of users, as an organisational unit within HAKOM, within which two representatives of consumer protection associations take active participation, in accordance with the Consumer Protection Act.

The decisions on the dispute resolution shall be adopted by the Director of the Agency, thus achieving the principle of efficiency of proceedings, taking into account low values of the dispute in relation to the disputes of operators, the resolution of which is within the competence of the Council of HAKOM.

6.2.2. New manners of user protection

Using the framework and space provided by the ECA, HAKOM approached the redefinition of user protection through the Ordinance on the manner and conditions for the provision of electronic communications networks and services taking into account the analyses of received complaints or problems encountered by users in the use of public communications services and experiences from the EU Member States.

The Ordinance in question stipulates detailed provisions on what the operators' general business terms and conditions, the forms for various requests related to the establishment, change or termination of subscriber relation and contracts on the provision of public communications services must contain.

In order to improve clear and unmistakable information on the service, HAKOM concluded that it is necessary to adopt a special code of conduct, protecting users on the one hand and on the other, the value added service operators observing the law, who have a negative image in the public due to deceiving business practice of several other value added service operators.

One of the more important provisions of the Code of Conduct is the obligation of value added service operators to ensure that at the beginning of every call made to a value added service, and before the start of provision of service, the call price and the start of the charge are announced.

Operators of value added services are obligated to enable the termination of call upon announcing the price within a minimum of two seconds, and before the start of the charging period, in order for the user to be able to terminate the service use on time.

The ECA also stipulates a special resolution of users complaints concerning value added services, where value added service operators responsibly participate in the complaints resolution procedures.

6.2.3. Protection of children in using public communication services

HAKOM pays special attention to the protection of children against contents which are unsuitable for children. For this purpose, HAKOM prescribed the following:

- operators of public communications services are obligated to ensure the possibility of banning access to services the contents of which are unsuitable for children, if technically feasible,
- operators of public communications services are obligated to offer and enable users the service of banning access to contents unsuitable for children at the moment of the conclusion of contract,
- operators of public communications services are obligated to keep records on access numbers and addresses the contents of which are unsuitable for children, update them and exchange them among themselves.

In addition, HAKOM prepared an e-address to which unsuitable contents, including Internet addresses, may be reported. Where necessary, HAKOM shall notify and harmonise measures with operators concerning banning access to unsuitable contents.

7. WORK PROGRAMME REALISATION

At the end of 2009, HAKOM adopted the Strategic and Operative Plan for Development until 2012 on the basis of which annual work programmes are drawn up.

HAKOM shall implement the adopted strategic and operative plan using two improvement programmes:

- Convergence – outward oriented and focused on market development, development of market competition and regulatory frames.
- Modernisation – inward oriented and focused on increasing capacities and own ability of regulation and market development by a) implementing the e-Agency project and b) developing regulatory competencies .

HAKOM has named leaders and members of convergence and modernisation programmes, adopted programme plans, defined deadlines and the manner of monitoring the plans.

Programme “convergence” has been elaborated in previous chapters on the regulation of the market of electronic communications and postal courier services. Hereinafter, special attention shall be given to the “modernisation” programme in relation to the modernisation of HAKOM in 2008.

7.1. REALISATION OF E-AGENCY PROJECT

The main objective of the *e-Agency* project is the increase of HAKOM’s capacities through the computerization of processes and services by increasing the productivity and efficiency, and by widening and facilitating access to HAKOM’s regulatory services.

The purpose of the project is to modernise HAKOM using information and communications technology which will ensure accurate and timely information for all interested parties in the market of electronic communications.

Despite the fact that the existing HAKOM information system has fulfilled its purpose in the past, its capabilities are rather limited and it is not adaptable to technological and business changes. In addition, the existing system architecture does not allow the installation of the *e-Government* applications and services.

In order to eliminate these weaknesses and to ensure the adaptability to accelerated technological changes and ever growing requests for the provision of excellent services to interested parties, in 2008 HAKOM has initiated the implementation of *e-Agency*, a powerful, e-government-based integrated information system. The process started with the definition of conceptual architecture and continued with the elaboration of architectural layers, followed by the layer by layer implementation, in order to ensure complete integration of all system components.

The *e-Agency* is based on the so-called “Back Office”, whose layered architecture includes IT infrastructure (local network, servers, clients and primary software), Document Management System (DMS), Human Resources Management System (HRM) and Enterprise Resource Planning (ERP). The implementation of the “Back Office” was completed in 2008. With the “IT Infrastructure” sub-project the internal HAKOM network was modernised and expanded, including the primary software. Next, the Document Management System – Centrix was updated in order to enable the implementation of horizontal integration of HAKOM’s key processes. The Human Resources Management

System – HRnet, enabling the managing of employees’ competencies in addition to human resources management, was introduced and integrated. Enterprise Resource Planning – Navision, the precondition for the introduction of e-Business in HAKOM and covering the needs of modern accounting and financing, was implemented and integrated next.

In 2008, HAKOM has initiated the building of the so-called “Front Office” which will consist of a modern and powerful Portal including numerous electronic and Internet-based applications, such as *e-consultations, e-complaints, e-portability, e-licenses, e-market, e-tender, e-auction, e-advice, e-price, e-offer* and the like.

These e-applications shall be the central element of HAKOM’s integrated information system. In other words, HAKOM is trying to meet the needs of interested parties in the market of electronic communications, to ensure high quality of services, easy access and speedy delivery of information. Our services, productivity, efficiency and adaptability are highly dependent on the implemented, powerful electronic applications.

By implementing e-Agency, HAKOM supports the integration of the Republic of Croatia into the single European market of electronic communications and future pan-European e-Government services.

In 2008, the conceptual architecture of e-Agency, the specification and the design of modern HAKOM web site were defined. In addition, the development was completed and two e-applications prepared for putting into operation:

- e-complaints (after registration, the user will be able to electronically file a complaint, follow the status and progress of the complaint, etc.),
- e-portability (after registration, the user will be able to follow up the status and progress of number portability, establish the price of communications with the ported number, etc.).

In addition, the function specification was built and the development of the e-market overview (after registration, the user will be able to check the state of the market of electronic communications – updated quarterly: fixed, mobile, Internet etc) application initiated. The application shall enable a completely electronic collection of data from operators on the state of the market.

All three applications shall be put into operation during 2009, together with putting into operation of HAKOM’s new web site.

7.2. DEVELOPMENT OF REGULATORY COMPETENCIES

In the course of 2008, HAKOM continued with the improvement of skills and competencies of its employees. The work and operation of the regulatory body is closely connected to a corresponding number and educational structure of employees, and requires monitoring and evaluation of very important expert (electronic communications and postal), legal and economic issues. Changes on the market require continuous training of all the HAKOM employees. They shall receive training through post-graduate study, research projects, seminars, conferences, working groups, workshops and courses.

Through the Modernisation programme, HAKOM launched a number of projects for the development of regulatory competencies, among which the most important are:

- a) multi-disciplinary post-graduate study,

b) “View into the Future” project,
with the aim of increasing organizational and individual capabilities.

7.2.1. Multi-disciplinary post-graduate study

Together with the Faculty of Electrical Engineering and Computing, Faculty of Economics and Business and Faculty of Law in Zagreb, HAKOM prepared a specialized multi-disciplinary post-graduate study of the regulation of electronic communications market. The framework, the programme and the conditions of the study as well as the lecturers for every course have been defined. The study has been accepted by the Council of the Faculty of Electrical Engineering and Computing and of the Faculty of Law in Zagreb. The Council of the Faculty of Economics and Business is expected to do the same in the near future. The request for authorisation of the University of Zagreb has also been prepared.

The course should be launched in spring next year. The duration of the study is three semesters with 60 ECTS credits. The first semester would include the basics of electronic communications, regulatory law and economy. The objective is for the lawyers to acquire basic knowledge about communications and regulatory economy, for the economists to acquire knowledge about communications and regulatory law and for the engineers to acquire knowledge about regulatory law and economy. The second semester foresees specialization according to communication, economic or legal aspects of the electronic communications market regulation. The third semester foresees the drawing up of a post-graduate thesis which should particularly focus on real problems of market regulation.

Upon completion of the study, the students acquire the title of *Specialist for Electronic Communications Market Regulation*. HAKOM plans to grant scholarships for up to fifty of its employees by the end of 2012. Competition has been launched for this purpose and selection criteria drawn up. Proposals for the topics of post-graduate theses are being evaluated at the moment. Operators have also expressed interest for this study. Since this is, to our knowledge, the first study of this kind in Europe, it is possible that regulators and operators from the neighbouring countries would show interest as well.

7.2.2. “View into the Future” Project

In 2008, HAKOM defined the field of interest, where the launching of a multi-disciplinary project “View into the Future” took the central position. The project should prepare HAKOM for the challenges awaiting us in the near future:

A) Next Generation Networking (NGN):

- NGN core
- NGN access
- NGN numbering
- VoIP

B) Electronic communications market development:

- Market analysis (8 markets)

- Market regulation
- Spectrum management and economy
- Cost accounting
- Cost models.

The Project's dominant topics are the future development of technology, new regulatory issues introduced by the new technology, their influence on the development of the electronic communications market, and economic and legal aspects of a pro-active, neutral and transparent market regulation, incentive measures for investments and innovations and fair conditions for market competition. HAKOM plans to launch the project in 2009, as soon as preparations for the afore mentioned multi-disciplinary post-graduate study are completed.

Having that in mind, HAKOM initiated talks with the Faculty of Electrical Engineering and Computing in Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split. Contacting the Faculty of Law and Faculty of Economics and Business in Zagreb is planned for the near future.

7.3. PUBLICITY OF HAKOM'S WORK AND INFORMING THE PUBLIC

The work of HAKOM is public. In 2008, HAKOM developed and improved the publicity of its work. Consequently, it informed all interested parties on the market of electronic communications and postal services (users, operators and providers of electronic communications, postal and courier services, social partners and others) on its activities. HAKOM publishes decisions and other administrative acts on its web site and in the "Official Gazette". In accordance with the ECA and the PA, HAKOM kept and regularly updated databases with all registers and records kept for the purpose of performing tasks within its competence, operator and providers of electronic communications, postal and courier services. The databases are accessible to the public, free of charge, in electronic form on HAKOM's web site. HAKOM regularly published statistical data on markets of electronic communications and postal services. In addition, in the last year, HAKOM held periodic meetings, workshops and seminars with interested market participants.

Furthermore, HAKOM carried out public consultations on its web site during the procedures of adopting decisions and other administrative acts of significance to the relevant market, as well as in the procedures of adoption of executive regulations, work programmes and financial plans of HAKOM.

In 2008, HAKOM launched the project of designing the new HAKOM web site (www.hakom.hr). The web site has been designed to place the openness, transparency and publicity of work in the centre. HAKOM prepared contents for publication in Croatian and English and adjusted a part of the content to persons with special needs. On the new web site a special section is designated for the users of electronic communications and postal services. In addition, HAKOM defined and built in the organisation and process which support the required updating and publicity of work. The new HAKOM web site shall be available mid 2009.

In November 2008, the publication "Survey of satisfaction and use of postal and courier services in the Republic of Croatia" was published. The work on this project was started in the spring of 2008 for the purpose of researching and evaluating the satisfaction of users of postal and courier services with the offered, as well as with the provided services

on the market. The intention of HAKOM is that analysed and published data, contained in this Survey, should serve the providers of postal and courier services to get a better insight into the satisfaction and use of postal and courier services, as well as to all other interested institutions and individuals.

7.4. ACTIVITIES RELATED TO THE NEW ACT

With the entry into force of the ECA, HAKOM found itself faced with the challenge of fast application of new legislative regulations and integration and consolidation of the regulation of the postal services market.

HAKOM focused on the integration of employees from the administrative service of the former Council for Postal Services. The consolidation of the postal services market regulation is a lasting process still awaiting HAKOM.

With the entry into force of the ECA, HAKOM drew up a plan of adopting executive regulations based on the ECA – each executive regulation was assigned to one administrative service (leader, participants) and deadlines for drawing up the draft executive regulation were determined. In the performance of the specified legal task, HAKOM cooperated with the Ministry of the Sea, Transport and Infrastructure and the Ministry of Foreign Affairs and European Integration (hereinafter: MVPEI).

The procedure of adopting executive regulation from the scope of competence of HAKOM includes the following:

- drawing up of draft ordinance in the expert group,
- publication of the draft ordinance on the official HAKOM web site for the purpose of public consultation in the duration of a minimum of 30 days,
- analysis of received comments and amendments to the ordinance text accordingly,
- adopting the ordinance at a session of the Council of HAKOM,
- publication of the ordinance in the Official Gazette,
- with the entry into force of the ordinance, HAKOM publishes the analysed comments received during public consultation on the official HAKOM web site, explaining the reasons why certain proposals and comments were accepted while others were not.

When a certain executive regulation falls within the scope of the National Programme for the Accession of the Republic of Croatia to the European Union it is necessary to compare the conformity of the provisions of the ordinance and to obtain the declaration of conformity of the (draft) proposal of the regulation with the *acquis communautaire* and legal acts of the Council of Europe.

In the specified process of adoption of executive regulations, the Council of HAKOM adopted the following ordinances in 2008:

- Ordinance on the assignment and use of the radio frequency spectrum (Official Gazette No. 136/08),
- Ordinance on the manner and conditions for the provision of electronic communications networks and services (Official Gazette No. 154/08),

- Ordinance on the manner and conditions of access and shared use of electronic communications infrastructure and associated facilities (Official Gazette No.154/08),
- Ordinance on the payment of the fees for the performance of tasks by the Croatian Post and Electronic Communications Agency (Official Gazette No.154/08),
- Ordinance on the assignment of addresses and numbers (Official Gazette No.154/08).

In addition to the aforementioned ordinances, the Council of HAKOM adopted the following plans:

- Addressing Plan (Official Gazette No. 154/08),
- Numbering Plan (Official Gazette No.154/08).

In accordance with the ECA, HAKOM drew up proposals for the Ordinance on the allocation of the radio frequency spectrum and the Ordinance on the switch-over from analogue to digital broadcasting of radio and television programmes and access to positions in the multiplex in terrestrial digital broadcasting, adopted by the Minister of the Sea, Transport and Infrastructure.

7.5. TEMPORARY CLOSING OF CHAPTER 10 “INFORMATION SOCIETY AND MEDIA“

In the previous years and particularly in the last year HAKOM, aware of its role in the process of Croatian accession to the EU, made strong efforts to fulfil the set objectives in cooperation with the Ministry of the Sea, Transport and Infrastructure and other ministries and government administration bodies and to contribute to Croatia’s full membership as soon as possible. With the entry into force of the ECA, HAKOM was given a number of obligations in the last year considering its implementation, which it fulfilled quickly and successfully.

According to the EC document defining benchmarks for closing Chapter 10 Information Society and Media, HAKOM ensured sufficient administrative capacities for the implementation of the acquis and has provided clear evidence of the implementation of enforced regulatory measures for operators with significant market power and the rights of new operators on the electronic communications market.

Representatives from the EC noticed a high level of harmonisation of regulations and practice with the *acquis communautaire* and practice during the mission for the evaluation of benchmarks for closing Chapter 10 concerning administrative capacities of HAKOM and the competent Ministry of the Sea, Transport and Infrastructure in October last year.

The closing of Chapter 10 Information Society and Media is the acknowledgement of good and efficient work by HAKOM. All relevant directives and other EU regulations have thus been implemented into the Croatian legal system, creating efficient mechanisms for further liberalisation of the electronic communications market and a way into the society of knowledge.

The closing of Chapter 10 Information Society and Media represents an important step of Croatian accession to the EU. It is a significant success of the negotiating team, all state institutions, market participants and HAKOM. The closing of Chapter 10 means complete

harmonization of the regulations and practice with the *acquis communautaire* and practice and the readiness of the Republic of Croatia to join the EU as a full member.

7.6. PROCESSED REQUESTS AND HAKOM'S DECISIONS

In 2008, HAKOM received 23 703 newly opened cases, out of which there are 11 449 cases of administrative procedure, while 12 254 cases of non-administrative procedure. In 2008, HAKOM had 39 716 incoming documents and 17 575 outgoing documents, amounting to a total of 56 291 documents.

In 2008, HAKOM answered 8 276 requests for issuing licences for radio frequency spectrum:

- 1126 licences for the use of RF spectrum for fixed radio station);
- 1888 licences for the use of RF spectrum in microwave links u
- 98 licences for fixed radio station in the point – multi-points system⁽⁴⁾;
- 2833 licences for the use of RF spectrum for mobile radio station;
- 36 licences for the use of RF spectrum in satellite service;
- 713 licences for the use of RF spectrum in broadcasting ;
- 3 licences for KV/SV radio stations⁽⁵⁾;
- 240 licences for the use of RF spectrum in amateur service;
- 14 licences for CEPT amateur licence;
- 1310 licences for the use of RF spectrum on a vessel;
- 15 licences for the use of RF spectrum on an aircraft.

In 2008, HAKOM adopted 79 decisions on the primary assignment of addresses and numbers. Within the framework of tasks related to the R&TT conformity assessment and import licence and market placement, the total of 1 878 cases were received in 2008, for which 6 015 documents were issued. Within the framework of activities related to the electronic communications infrastructure management, HAKOM processed 280 cases. During the reporting period, 7 452 cases were processed. In the tasks of construction and spatial plans, HAKOM issued a total of 7 092 documents. During 2008, HAKOM received 915 users' complaints from the Council of Users of Telecommunications Services.

7.7. INTERNATIONAL COOPERATION

In 2008, two projects financed by EU CARDS 2004 and PHARE 2005 PPF were successfully completed.

CARDS 2004 project under the title “Strengthening of capacities of the Croatian Telecommunications Agency” in the total value of one million EUR was completed in March 2008. The project fulfilled all defined objectives in three basic segments:

- providing direct support in the provision of HAKOM's current,

⁽⁴⁾ i ⁽⁵⁾ with the entry into force of the Ordinance on the assignment and use of the radio frequency spectrum, licences are issued under a different name

- education and strengthening of HAKOM employees' capacities,
- support in the drawing up of the draft for the new electronic communications act in accordance with the EU regulatory framework.

The PHARE 2005 PPF project, the objective of which was to draw up the Draft strategy for the switch-over from analogue to digital broadcasting, was initiated in January and successfully completed in April 2008.

In 2008, within the PHARE 2006 PPF and IPA 2007, HAKOM ensured funds in the amount of EUR 4.2 million to be used for strengthening the institutional and administrative capacities and ensuring the purchase of high-tech equipment for supervision and measuring of the radio frequency spectrum.

In 2008, HAKOM participated in the work of various working bodies of international ITU and CEPT organisations. Our active participation contributed to the preparation and adoption of decisions, recommendations and other documents regulating conditions and manner of regulation of postal and electronic communications market.

HAKOM has the observer status in the work of the European Regulators Group, and Communications Committee, and is a full member of the Independent Regulators Group. In 2008, HAKOM's employees took active participation in the work of working groups and project teams, as well as in meetings of the contact group and at E/IRG plenary sessions.

With its international activities HAKOM participated in the adoption of important documents influencing the regulation of the postal and electronic communications market on the European and Croatian level. Furthermore, in international cooperation and contacts with regulators in other countries numerous experiences and information were exchanged, enabling better understanding of the entire European market of electronic communications, its development and getting an insight into experiences and regulation best practice. The integration into the European network of regulators and processes of electronic communications development is an additional evidence of the realisation of HAKOM as a modern organisation in line with the time and challenges that market development brings.

8. FINANCIAL STATEMENTS AND ANNUAL FINANCIAL REPORT

HAKOM, as the legal successor of the CPS, has taken over all movable and real estate, equipment, files, financial assets and other documentation, as well as rights and liabilities of the CPS.

Separate recording of accountancy events referring to electronic communications sector and postal and courier services sector are stipulated by the ECA. The annual financial statement gives revenues, expenditures and results for electronic communications sector and postal and courier services sector separately. The annual financial statement consists of analysis of revenue and expenditure, revenue surplus/deficiency, balance of accounts on 31 December 2008, analyses of investments, employees and budget revenue analysis.

Pursuant to the new accountancy principle, the Regulation on accountancy of non-profit organisations, the revenues and expenditure shall not be registered in accordance with the modified principle of funds but in accordance with the accrual principle, irrespective of payment. The reclassification of all balance items and the reclassification of the HAKOM annual financial plan for 2008 has been performed. The modification of the accountancy principle has not influenced state budget revenue.

The ECA has stipulates that HAKOM shall transfer funds surplus, with reference to the annual financial plan, to the next calendar year. The un-appropriated revenue surplus made in 2008 amounts to HRK 27 168 914.57, and the available funds at the bank account amount to HRK 27 082 478.75.

On 31 December 2008 HAKOM employed a total of 143 employees. 27 employees were employed by HAKOM in 2008, out of which 10 were the employees of the CPS, and 4 employees left HAKOM.

Pursuant to the Ordinance on the payment of the fee for the provision of telecommunications services and activities and the Ordinance on the payment of the fee for allocation and use of radio frequencies, during 2008 and earlier, HAKOM has for itself and on behalf of state budget, raised funds that were paid to the state budget account. During 2008, the legislation changed in such a way that the payment of charged amounts shall be made directly to state budget account, and HAKOM performs billing service for and on behalf of state budget, which started in 2009. Due to the specified, off-balance register of state budget revenue was organised. State budget funds paid to HAKOM bank account shall be immediately transferred to the state budget account. Off-balance budget revenue recording shall be performed analytically per customers and bills.

8.1 INCOME AND REVENUE

The funds for the performance of HAKOM tasks in 2008 were secured:

- for electronic communications sector, on the basis of approved HAKOM Annual Financial Plan, from the fee for the use of addresses and numbers, fee for the use of the radio frequency spectrum, and fee for the provision of other tasks, in the percentage of gross annual revenue made during the previous calendar year by operators providing electronic communications networks and market services;
- for postal and courier services sector, pursuant to PA, from the state budget.

The CPS was merged with the CTA in July 2008. The Annual Financial Plan anticipated only revenues and expenditures for the electronic communications sector. The Annual Financial Statement shall be compared with the Annual Financial Plan only for electronic communications sector.

Aggregate revenues of HAKOM in 2008 amount to HRK 84 004 317.63. Taking the modified accountancy principle into account, aggregate revenues include revenues made in 2008 according to the accrual principle and revenues made in 2007 or earlier according to the payment principle.

Revenues made from the state budget to finance postal and courier service sector amount to HRK 1 049 591.05. These funds refer only to the period from 7 July to 31 December 2008. Before merging with HAKOM, the CPS operated as a separate legal entity with a separate Annual Financial Statement.

To finance postal and courier services sector, the amount of HRK 1 372 640 was paid from the state budget. Aggregate expenditures of this sector amounted to HRK 1 049 591. Unused funds were repaid to the state budget on 30 January 2009.

Table 8.1 and Figures 8.1 and 8.2 show the analysis of HAKOM revenues.

DESCRIPTION		PLAN 2008	REALISATION 2008	Index
1.	Income from fee for the use of radio frequencies	12.216.119,89	18.619.935,25	152
2.	Income from fee 0.20% of total annual gross revenue of telecommunications services concessionaires	24.395.620,48	28.161.778,11	115
3.	Income from fee for the use of addresses and numbers	41.720.098,80	32.686.580,00	78
4.	Income from state budget for financing postal and courier services sector	-	1.049.591,05	-
5.	Income from technical inspection	1.729.218,11	2.207.158,30	128
6.	Return on assets *	24.995,60	700.651,73	2803
7.	Other incomes	412.555,24	578.623,19	140
TOTAL		80.498.608,12	84.004.317,63	104

Table 8.1: Income making in 2008 in comparison with the Annual Financial Plan (HRK)

* Return on assets represents financial income from assets, or income made from returned interest on bank account funds, and income made by legal default interest on untimely payment.

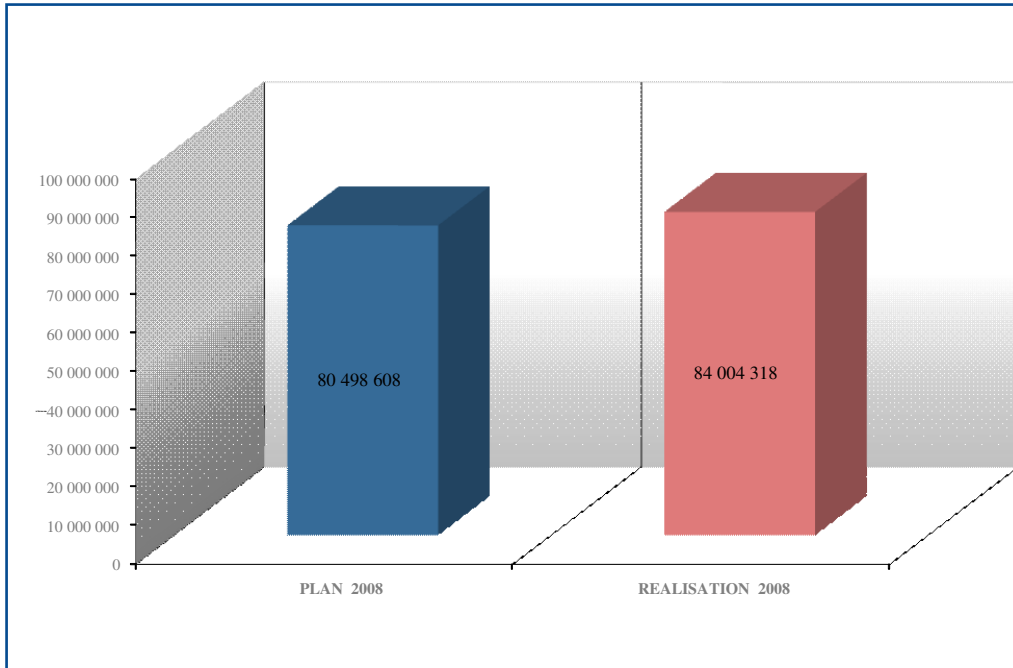


Figure 8.1: Income in 2008

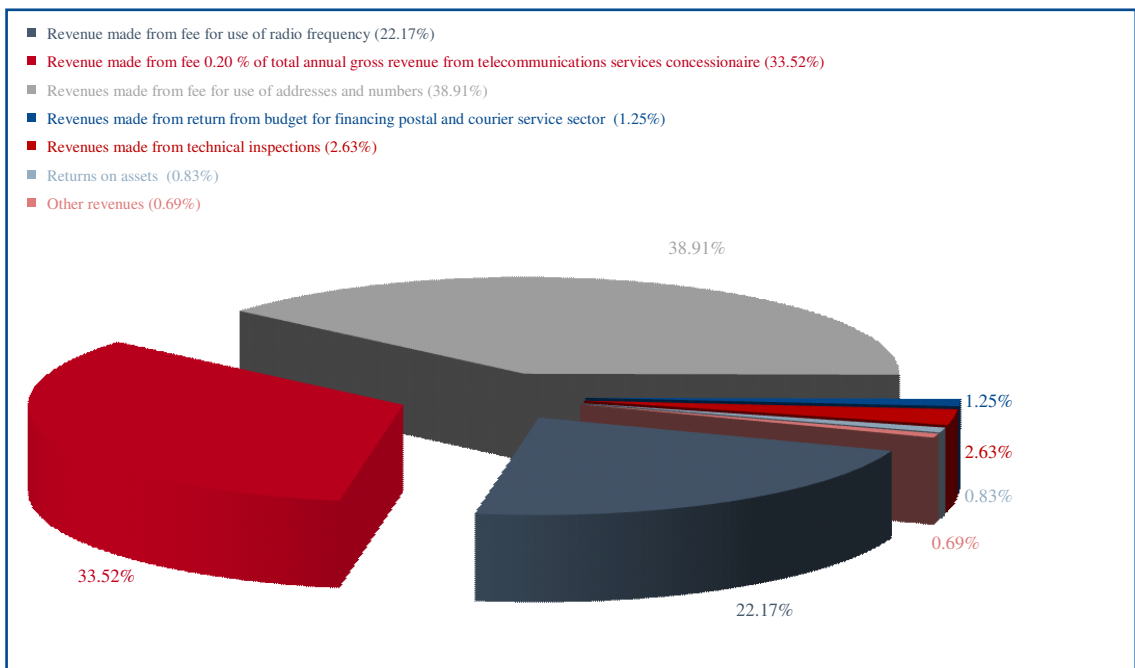


Figure 8.2: Income structure in 2008

8.2. EXPENDITURES

Pursuant to the new accountancy principle, the accrual principle, the reclassification of HAKOM Annual Financial Plan for 2008 has been performed.

Total HAKOM expenditures amount HRK to 86 383 417, out of which

- HRK 48 530 143 refers to expenditures in electronic communications sector,
- HRK 1 047 542 refer to expenditures in postal and courier services sector (no investments included)
- HRK 36 805 731 refer to the implementation of the Broadband Development Strategy in Croatia, pursuant to Decisions adopted by the Croatian Government.

Out of total expenditures in electronic communications sector (HRK 48 530 143) HRK 27 548 877.91 refer to expenditures for employees, HRK 20 404 547.14 refer to material expenditures, HRK 378 294.59 refer to depreciation, HRK 48 542.85 refer to financial expenditures, HRK 131 585.54 refer to current donations and HRK 18 295.32 refer to other expenditures.

Out of total expenditures in postal and courier services sector (HRK 1 047 542), HRK 738 180.69 refer to expenditures for employees, HRK 309 135.74 refer to material expenses and HRK 225.62 refer to financial expenses. Expenditures in this sector were financed from the state budget.

Capital donations, or the implementation of the Broadband Development Strategy which amounts to HRK 36 805 731 is not an expenditure that refers to HAKOM's regular task performance and shall not be financed from the regular HAKOM income. At the capital donations account, expenditures incurred on the basis of the Decision adopted by the Croatian Government were recorded. Financial assets to cover these expenditures shall be taken from the surplus over expenditures from the previous years: 2005, 2006 and 2007. Income surplus cash assets from the previous period are registered at a separate bank account.

Tables 8.2 and 8.4 show HAKOM expenditure analysis.

<i>Class/ Group</i>	<i>Sub group</i>	<i>Depart- ment</i>	DESCRIPTION	REALISATION IN 2008
41			Personnel expenses	28.287.058,60
	411		Wages and salaries	23.793.341,67
		4111	Wages for regular work	23.793.341,67
	412		Other personnel expenses	396.600,00
		4121	Other personnel expenses	396.600,00
	413		Taxes and contributions on wages and salaries	4.097.116,93
		4131	Health insurance contributions	3.693.196,44
		4132	Employment contribution	403.920,49
42			Material expenses	20.713.682,88
	421		Personnel costs reimbursement	3.276.679,09
		4211	Business trips	1.493.974,77
		4212	Local transportation, field work, separation allowance	570.194,50
		4213	Personnel professional improvement	1.212.509,82
	422		Costs reimbursement to members of representative and executive bodies, commissions etc.	783.908,82
		4221	Costs reimbursement to members of representative and executive bodies, commissions and similar.	783.908,82
	424		Material and energy expenses	1.528.818,21
		4241	Office material and other material expenses	728.913,51
		4243	Energy	592.567,58
		4244	Small inventory and tires	207.337,12
	425		Expenses for services	14.049.572,28
		4251	Telephone, postal and transport services	2.121.956,82
		4252	Regular and investment maintenance services	1.390.645,18
		4253	Promotion and information services	0,00
		4254	Utility services	268.485,18
		4255	Rental fees	5.884.576,56
		4256	Health and veterinary services	205,00
		4257	Intellectual and personal services	3.124.900,83
		4258	Computer services	312.175,49
		4259	Other services	946.627,22
	429		Other non-mentioned expenses	1.074.704,48
		4291	Insurance premium	455.992,42
		4292	Entertainment funds	118.075,75
		4293	Membership fees	390.827,70
		4294	Other non-mentioned expenses	109.808,61
43			Depreciation expenses	378.294,59
	431		Depreciation	378.294,59
		4311	Depreciation	378.294,59
44			Financial expenses	48.768,47
	443		Other financial expenses	48.768,47
		4431	Bank services and payment system services	39.901,50
		4432	Negative rate of exchange differentials and currency clause	3.353,47
		4433	Default interest	5.123,50
		4434	Other non-mentioned financial expenses	390,00
45			Donations	36.937.316,94
	451		Current donations	131.585,54
		4512	Scholarships	0,00
	452		Capital donations	36.805.731,40
		4521	Capital donations	36.805.731,40
46			Other expenses	18.295,32
	461		Fines and penalties and damages	329,40
		4614	Penalty clause and other damages	329,40
	462		Other non-mentioned expenses	17.965,92
		4622	Claims written-off	17.965,92
			TOTAL	86.383.416,80

Table 8.2: Expenditures incurred in 2008 (in HRK)

<i>Class / Group</i>	<i>Subgroup</i>	<i>Department</i>	DESCRIPTION	<i>Electronic communications sector</i>	<i>Postal and courier services sector</i>
41			Personnel expenses	27.548.877,91	738.180,69
	411		Wages and salaries	23.169.206,69	624.134,98
		4111	Salary for regular work	23.169.206,69	624.134,98
	412		Other personnel expenses	390.000,00	6.600,00
		4121	Other personnel expenses	390.000,00	6.600,00
	413		Taxes and contributions on wages and salaries	3.989.671,22	107.445,71
		4131	Health insurance contributions	3.596.361,01	96.835,43
		4132	Employment contributions	393.310,21	10.610,28
42			Material expenses	20.404.547,14	309.135,74
	421		Personnel costs reimbursement	3.214.115,05	62.564,04
		4211	Business trips	1.472.535,63	21.439,14
		4212	Local transportation, field work, separation allowance	544.187,40	26.007,10
		4213	Personnel professional improvement	1.197.392,02	15.117,80
	422		Costs reimbursement to members of representative,	783.908,82	0,00
		4221	Costs reimbursement to members of representative	783.908,82	0,00
	424		Expenses for material and energy	1.513.884,61	14.933,60
		4241	Expenses for office and other material	719.967,05	8.946,46
		4243	Energy	586.580,44	5.987,14
		4244	Small inventory and tires	207.337,12	0,00
	425		Expenses for services	13.831.707,62	217.864,66
		4251	Telephone, postal and transport services	2.092.664,52	29.292,30
		4252	Current and investment maintenance service	1.389.452,18	1.193,00
		4253	Promotion and information service	0,00	0,00
		4254	Utility services	264.363,47	4.121,71
		4255	Rental fees	5.796.014,06	88.562,50
		4256	Health and veterinary services	205,00	0,00
		4257	Intellectual and personal services	3.095.550,33	29.350,50
		4258	Computer services	293.910,20	18.265,29
		4259	Other services	899.547,86	47.079,36
	429		Other non-mentioned expenses	1.060.931,04	13.773,44
		4291	Insurance premiums	455.992,42	0,00
		4292	Entertainment expenses	104.652,31	13.423,44
		4293	Membership fees	390.827,70	0,00
		4294	Other non-mentioned expenses	109.458,61	350,00
43			Depreciation expenses	378.294,59	0,00
	431		Depreciation	378.294,59	0,00
		4311	Depreciation	378.294,59	0,00
44			Financial expenses	48.542,85	225,62
	443		Other financial expenses	48.542,85	225,62
		4431	Bank services and payment system services	39.901,50	0,00
		4432	Negative rate of exchange differentials and currency	3.353,47	0,00
		4433	Default interest	4.987,88	135,62
		4434	Other non-mentioned financial expenses	300,00	90,00
45			Donations	36.937.316,94	0,00
	451		Current donations	131.585,54	0,00
		4511	Current donations	131.585,54	0,00
	452		Capital donations	36.805.731,40	0,00
		4521	Capital donations	36.805.731,40	0,00
46			Other expenses	18.295,32	0,00
	461		Fines and penalties and damages	329,40	0,00
		4614	Penalty clause and other damages	329,40	0,00
	462		Other non-mentioned expenses	17.965,92	0,00
		4622	Claims written-off	17.965,92	0,00
			T O T A L	85.335.874,75	1.047.542,05

Table 8.3: Expenses incurred in 2008 per sectors (in HRK)

<i>Class/ Group</i>	<i>Subgroup</i>	<i>Depart ment</i>	DESCRIPTION	PLAN 2008	Electronic communications sector	Index
41			Personnel expenses	27.682.647,20	27.548.877,91	100
	411		Wages and salaries	27.252.547,20	23.169.206,69	85
		4111	Wages for regular work	0,00	23.169.206,69	-
	412		Other personnel expenses	430.100,00	390.000,00	91
		4121	Other personnel expenses	430.100,00	390.000,00	91
	413		Taxes and contributions on wages and salaries	0,00	3.989.671,22	-
		4131	Health insurance contributions	0,00	3.596.361,01	-
		4132	Employment contributions	0,00	393.310,21	-
42			Material expenses	23.500.581,96	20.404.547,14	87
	421		Personnel costs reimbursement	3.891.773,47	3.214.115,05	83
		4211	Business trips	1.450.000,00	1.472.535,63	102
		4212	Local transport reimbursement ,field work and separation allowance	469.781,40	544.187,40	116
		4213	Personnel professional improvement	1.971.992,07	1.197.392,02	61
	422		Cost reimbursement to members of representative and executive bodies, commissions and similar	730.120,90	783.908,82	107
		4221	Cost reimbursement to members of representative and executive bodies, commissions and similar	730.120,90	783.908,82	107
	424		Material and energy expenses	1.498.009,45	1.513.884,61	101
		4241	Office material and other material expenses	691.267,46	719.967,05	104
		4243	Energy	626.216,05	586.580,44	94
		4244	Small inventory and tires	180.525,94	207.337,12	115
	425		Expenses for services	15.966.005,57	13.831.707,62	87
		4251	Telephone, postal and transport services	2.364.358,18	2.092.664,52	89
		4252	Regular and investment maintenance services	1.571.707,94	1.389.452,18	88
		4253	Promotion and information services	57.000,00	0,00	0
		4254	Utility services	365.878,85	264.363,47	72
		4255	Rental fees	6.324.147,00	5.796.014,06	92
		4257	Intellectual and personal services	3.973.448,60	3.095.550,33	78
		4258	Computer services	0,00	293.910,20	-
		4259	Other services	1.309.465,00	899.547,86	69
	429		Other non-mentioned expenses	1.414.672,57	1.060.931,04	75
		4291	Insurance premiums	953.112,46	455.992,42	48
		4292	Entertainment funds	149.593,56	104.652,31	70
		4293	Membership fees	240.933,55	390.827,70	162
		4294	Other non-mentioned expenses	71.033,00	109.458,61	154
43			Depreciation expenses	0,00	378.294,59	-
	431		Depreciation	0,00	378.294,59	-
		4311	Depreciation	0,00	378.294,59	-
44			Financial expenses	140.446,02	48.542,85	35

	443		Other financial expenses	140.446,02	48.542,85	35
		4431	Bank services and payment system services	58.700,87	39.901,50	68
		4432	Negative rate of exchange differentials and currency clause	15.312,65	3.353,47	22
		4433	Default interest	0,00	4.987,88	-
		4434	Other non-mentioned financial expenses	66.432,50	300,00	0
45			Donations	132.000,00	36.937.316,94	27.983
	451		Current donations	132.000,00	131.585,54	100
		4511	Current donations	132.000,00	131.585,54	100
	452		Capital donations	0,00	36.805.731,40	-
		4521	Capital donations	0,00	36.805.731,40	-
46			Other expenses	0,00	18.295,32	-
	461		Fines and penalties and damages	0,00	329,40	-
		4614	Penalty clause and other damages	0,00	329,40	-
	462		Other non-mentioned expenses	0,00	17.965,92	-
		4622	Claims written-off	0,00	17.965,92	-
472			Regular expenses of intangible and tangible assets	29.042.932,94	-	-
			TOTAL	80.498.608,12	85.335.874,75	106

Table 8.4: Expenditures incurred in 2008 compared to Annual Financial Plan (in HRK)

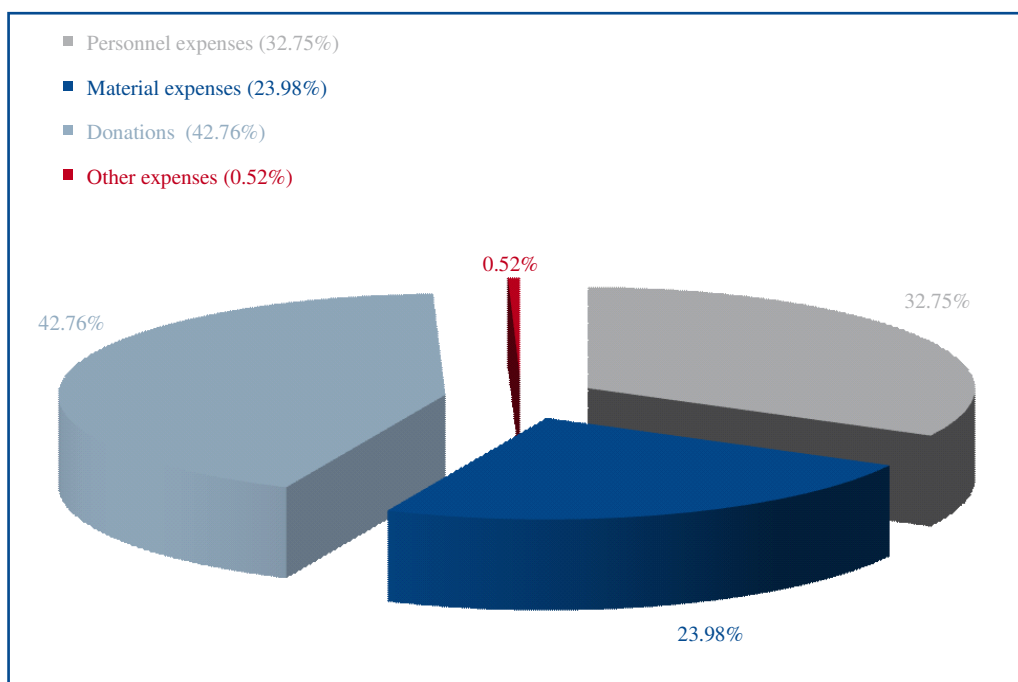


Figure 8.3: Expenditures structure in 2008

8.3 INCOME SURPLUS (DEFICIT)

HAKOM income deficit amounting to HRK 2 379 099.00 is the result of capital donation (incentive) expenses, that amounted to HRK 36 805 731.00 in 2008.

Capital donations (incentives) do not represent expenses related to the regular performance of HAKOM tasks, and are not financed from the regular HAKOM income. The capital donations account registered expenses incurred on the basis of the Decision adopted by the Government of the Republic of Croatia. Financial funds for such expenses are found in the income surplus over expenses in previous years: 2005, 2006 and 2007. There is a separate bank account for income surplus over expenses from the previous years.

Pursuant to the Decision adopted in December 2006 by the Government of the Republic of Croatia, the funds surplus earned in 2005 shall be used for the implementation of the Broadband Development Strategy in Croatia. Pursuant to the Decision adopted in August 2007 by the Croatian Government, the funds surplus earned in 2006 shall be used for the implementation of the Broadband Development Strategy in Croatia, and the amount of HRK 15 000 000.00 shall be transferred to the separate account of the company Odašiljači i Veze d.o.o. as an incentive policy for individual persons to purchase receivers for digital television signals (transferred in 2007). Pursuant to the Decision adopted in June 2008 by the Croatian Government, the surplus from 2007 shall be used for the implementation of the Broadband Development Strategy in Croatia and the amount of HRK 29 000 000.00 transferred to the separate account of the company Odašiljači i veze d.o.o. for the purpose of providing incentives to physical persons while purchasing receivers for digital television signals.

	HRK
KING ICT d.o.o.	5 327 115.40
Odašiljači i veze	31 260 416.00
VIPnet d.o.o.	189 800.00
Iskon Internet	28 400.00
TOTAL	36 805 731.40

Capital donations analysis shows statements of funds on 1 January 2008, expenses incurred in 2008 and surplus intended for the implementation of the Strategy in the upcoming periods. HAKOM income and expenses analysis with review of capital donations influence shows the analysis of influence of capital donations on the business result.

On the basis of the Decision adopted by the Government of the Republic of Croatia on the allocation of fund surplus from the previous years, HAKOM has carried out public invitation procedure to assign incentives for the development of broadband infrastructure at targeted geographical areas, where there was insufficient interest for the development and investment in such infrastructure (areas of special state concern, islands and hill and mountain areas), which resulted in better availability of broadband Internet access and enabled diversified offer of broadband services by all operators at those areas. 15 310 new users in areas of special state concern and in hill and mountain areas realised their broadband Internet access in the period from June to December 2008. Due to the incentive

programme of developing broadband Internet access, 25% of users at in areas of special state concern and hill and mountain areas were connected to the newly built infrastructure.

Furthermore, the “e-islands“ project was realised, focusing on assigning incentive funds for the development of broadband Internet access for the purpose of connecting parent and regional schools on islands into the CARNet network and establishment of systems of e-learning. On the basis of the Decision of the Croatian Government, HAKOM carried out public invitation procedure for the development of broadband Internet access infrastructure to connect parent and regional primary schools, as well as for equipment and services of establishing e-learning system within CARNet. Based on the tender procedure, agreements were concluded with the contractors. As the result of the “e-islands“ project, broadband infrastructure was built on the islands and telecommunication and terminal video conferencing equipment for schools supplied and installed. The system is connected, it is technically in function and integrated into the CARNet network enabling e-learning. Currently 14 regional schools on islands are connected to their parent schools.

It is important to emphasise that all parent primary schools in Croatia have broadband Internet connection, and regional schools are currently in the process of connection. 635 locations (80.58%) have been connected at the rate of 8 Mbit/s and 130 locations (16.50%) at the rate of 100 Mbit/s.

The liability to pay in the state budget resulted from the payment of funds for state budget to HAKOM account. On 31 December 2008 HRK 6 934 668.32 of state budget funds were left on the HAKOM account. This amount was paid in the state budget in 2009. Section 8.7 State budget revenue deals with total revenue of the state budget and funds paid in the state budget.

On 31 December 2008 HAKOM account statement showed HRK 323 049.11 surplus assigned to the financing of postal and courier services. That amount was paid in the state budget in 2009. Transferred CPS income surplus in the amount of HRK 7 828.62 was paid to the state budget as well.

There is no income surplus/deficit in the postal and courier services sector. Aggregate expenses (current expenses and capital investments) are financed from the state budget funds. Surplus assigned by the state budget was returned to the state budget in 2009.

HRK

- income surplus in the next period	75 113 123
- reserved for capital donations	40 678 663
	6 934 668
- liabilities to pay to the state budget	323 049
	7 828
Non-allocated income surplus	27 168 914

Non-allocated income surplus contains uncollected receivables.

HAKOM cash in hand and at bank on 31 December 2008 amounted to HRK 75 026 687.08.

HRK

- cash assets	75 026 687
- reserved for capital donations	40 678 663

- liability to pay to the state budget	6 934 668 323 049 7 828
- available funds	27 082 479

Pursuant to the ECA, HAKOM shall transfer the fund surplus compared to the Annual Financial Plan, to the next calendar year.

Tables 8.5 through 8.8 show HAKOM income/expenses analysis (income surplus/deficit)

	DESCRIPTION	RALISATION IN 2008
	A) INCOME (1 to 2)	84.004.318,00
1.	Income earned by special regulations	83.303.666,00
2.	Income from property	700.652,00
	B) EXPENSES (1 to 6)	86.383.417,00
1.	Personnel expenses	28.287.058,00
2.	Material expenses	20.713.683,00
3.	Depreciation expenses	378.295,00
4.	Financial expenses	48.769,00
5.	Donations	36.937.317,00
	- current donations	131.585,54
	- capital donations	36.805.731,46
6.	Other expenses	18.295,00
	C) INCOME SURPLUS (DEFICIT) for accounting period	-2.379.099,00
	Income surplus - transferred	77.492.222,00
	- income surplus on 1 January 2008	77.484.394,00
	- CPS income surplus	7.828,00
	Income surplus in the next period	75.113.123,00

Table 8.5: HAKOM business results (HRK)

DESCRIPTION	AMOUNT
Assets on 1 January 2008	77.484.394,00
- income surplus from 2005	28.712.593,00
- income surplus from 2006	19.390.117,00
- income surplus from 2007	29.381.684,00
Capital donations paid in 2008	36.805.731,00
- from 2005 income surplus	7.805.731,00
- from 2006 income surplus	0,00
- from 2007 income surplus	29.000.000,00

Assets on 1 January 2009	40.678.663,00
- income surplus from 2005	20.906.862,00
- income surplus from 2006	19.390.117,00
- income surplus from 2007	381.684,00

Table 8.6: Incentive analysis (HRK)

DESCRIPTION		2008
A) HAKOM incomes		84.004.318,00
B) HAKOM expenses with capital donations		86.383.417,00
C) Income surplus	A – B	-2.379.099,00
D) Income surplus – transferred		77.492.222,00
E) Income surplus in next period	C + D	75.113.123,00
F) Capital donations (incentives)		36.805.731,00
<i>Income without capital donations</i>		
G) HAKOM income in 2008	A	84.004.318,00
H) HAKOM expenses without capital donations	B - F	49.577.686,00
I) HAKOM income surplus in 2008	G - H	34.426.632,00
<i>Income surplus with reference to liability to pay in the state budget</i>		
Income surplus in 2008	I	34.426.632,00
Liability to pay in SB, electronic communications sector		6.934.668,32
Liability to pay in SB, postal and courier services sector		323.049,11
Non-allocated income surplus in 2008		27.168.914,57

Table 8.7: Income and expenses analysis with reference to the effect of incentives on business results (HRK)

DESCRIPTION		<i>Postal and courier services sector</i>
	A) INCOME (1 to 2)	1.372.640,00
1.	Income pursuant to special regulations	1.372.640,00
2.	Income from property	0,00
	B) EXPENSES (1 to 6)	1.047.542,05
1.	Personnel expenses	738.180,69
2.	Material expenses	309.135,74
3.	Depreciation expenses	0,00
4.	Financial expenses	225,62
5.	Donations	0,00
6.	Other expenses	0,00

	C) CAPITAL INVESTMENTS	2.049,00
	D) INCOME SURPLUS(DEFICIT) for period	323.048,95
	Repaid in state budget (in 2009)	323.048,95
	E) INCOME SURPLUS (DEFICIT)	0,00

Table 8.8: Analysis of HAKOM income and expenses for postal and courier sector (HRK)

8.4 BALANCE SHEET

Pursuant to new accountancy principle, reclassification of all balance sheet figures has been performed

Fixed assets consist of:

	Statement 31 Dec.2008 HRK	%
Non-manufactured assets	5 747 691.47	23
Manufactured assets	14 899 307.30	59
Buildings in preparation	397 732.20	2
Equipment in preparation	4 047 197.26	16
TOTAL	25 091 928.23	100

Financial assets consist of:

	Statement 31 Dec.2008 HRK	%
Cash in hand and at bank	75 026 687.08	93
Deposits, guarantees	75 914.47	-
Receivables*	5 237 644.09	7
TOTAL	80 340 245.64	100

* Total HAKOM accrued receivables amount to HRK 5 237 644.09

Cash at bank and cash in hand consist of:

	Statement on 31 December 2008 (HRK)	%
Funds for financing of incentive	40 678 662.28	54
Funds – liability to pay-in state budget**	7 257 717.43	10
Funds – liability to pay-in state budget **	7 828.62	-
Available funds	27 082 478.75	36
TOTAL	75 026 687.08	100

Liabilities consist of:

	Statement on 31 December 2008 (HRK)	%
Other liabilities for personnel	787.50	-
Reimbursement of costs to the members of Council of users	59 653.11	-
Liabilities to contractors **	4 873 443.83	39

Liabilities to international contractors **	474.14	-
Liabilities for state budget	6 934 668.32	56
Other liabilities /state budget funds /	323 049.11	4
Deferred acknowledgement of income ***	171 346.21	1
T O T A L	12 363 422.22	100

** Total HAKOM liabilities to contractors amount to HRK 4 873 917.97

*** Deferred income contain accrued income, or all invoiced but not-collected income in 2007 or earlier. When paid that accrued income becomes current income.

HAKOM Balance sheet, Statement on 31 December 2008

Account in Accountancy Plan	DESCRIPTION	Statement on 01 January	Statement on 31 December	Index (4/3)
1	2	3	4	5
ASSETS				
	ASSETS	120.159.064	105.432.173	88
0	Fixed assets	24.609.402	25.091.928	102
01	Fixed assets	6.819.479	5.747.691	84
011	Tangible assets – natural resources	79.615	93.397	117
0111	Real estate – land	79.615	93.397	117
012	Intangible assets	12.991.938	14.367.571	111
0123	Licenses	0	250.540	-
0124	Other rights	0	9.006	-
0128	Other intangible assets	12.991.938	14.108.025	109
019	Correction of value of manufactured fixed assets	6.252.074	8.713.277	139
02	Fixed assets	17.519.083	14.899.308	85
021	Buildings	5.959.016	5.959.016	100
0213	Other buildings	5.959.016	5.959.016	100
022	Facilities and equipment	106.736.931	107.415.453	101
0221	Office equipment and furniture	7.872.179	8.076.089	103
0222	Communication equipment	248.756	255.254	103
0223	Maintenance and safety equipment	203.241	195.539	96
0225	Instrument, devices and machinery	98.412.755	98.811.441	100
0227	Devices, machines and equipment for other purposes	0	77.130	-
023	Means of transportation	24.812.056	25.017.090	101
0232	Other means of transportation	24.812.056	25.017.090	101
024	Books, works of art, and other exhibits	16.100	28.174	175
0244	Other non-mentioned exhibits	16.100	28.174	175
026	Intangible manufactured assets	194.346	932.445	480
0261	Investment in computer programmes	194.346	932.445	480
029	Correction of value of manufactured fixed assets	120.199.366	124.452.870	104
04	Small inventory	0	0	-
042	Small inventory in use	0	265.610	-
049	Small inventory value adjustment	0	265.610	-
05	Preparatory non-financial fixed assets	270.840	4.444.929	1641
051	Buildings – under preparation	270.840	397.732	147
052	Facilities and equipment under preparation	0	4.047.197	-
1	Financial assets	95.549.662	80.340.245	84
11	Cash in hand and at bank	92.888.848	75.026.687	81
111	Cash at bank	92.883.863	75.017.149	81
1111	Cash at domestic bank account	92.883.863	75.017.149	81
112	Appropriated funds	3.810	0	0
113	Cash in hand	1.175	9.538	812
12	Deposits, guarantee deposits and receivables from	6.982	75.914	1087

	employees for prepaid taxes and other			
122	Guarantee deposits	6.982	6.982	100
123	Receivables from employees	0	912	-
129	Other receivables	0	68.020	-
1293	Receivables for advanced payment	0	68.020	-
16	Receivables for business income	2.653.832	5.237.644	197
163	Receivables for income earned by special regulations	2.576.175	5.081.500	197
164	Receivables for income from property	77.657	156.144	201
1641	Receivables for income from financial assets	77.657	156.144	201

Account in Accountancy Plan	DESCRIPTION	Statement on 01 January	Statement on 31 December	Index (4/3)
1	2	3	4	5
LIABILITIES AND OWN SOURCES				
	LIABILITIES AND OWN SOURCES	120.159.064	105.432.173	88
2	Liabilities	2.653.832	12.363.421	466
24	Liabilities for operating expenses	0	12.192.075	-
241	Liabilities for personnel	0	787	-
2417	Other liabilities for personnel	0	787	-
242	Liabilities for material expenses	0	4.933.571	-
2422	Reimbursement of costs to members of representative and executive bodies, committees and similar	0	59.653	-
2424	Liabilities to domestic contractors	0	4.873.444	-
2425	Liabilities to international contractors	0	474	-
245	Liabilities for collected aid funds	0	6.934.668	-
249	Other current liabilities	0	323.049	-
2493	Liabilities for advanced payment, deposits, guarantees, and other non-mentions liabilities	0	323.049	-
29	Deferred expenses and accrued income	2.653.832	171.346	6
292	Non-collected accrued income	2.653.832	171.346	6
2922	Deferred income	2.653.832	171.346	6
5	Own sources	117.505.232	93.068.752	79
51	Own sources	24.616.384	17.955.629	73
511	Own sources	24.616.384	17.955.629	73
52	Operating results	92.888.848	75.113.123	81
522	Income surplus/deficit	92.888.848	75.113.123	81
5221	Income surplus	92.888.848	75.113.123	81
OFF-BALANCE SHEET RECORDS				
6	Off-balance sheet records (=0)	0	0	-
61	Off-balance sheet records – assets	0	100.683.915	-
62	Off-balance sheet records – capital and liabilities	0	100.683.915	-

8.5 INVESTMENTS

Tables 8.9 through 8.11 show HAKOM investment analysis

DESCRIPTION	FULFILEMNT 2008
I Buildings	149 680,80
A) Construction of centres, CMC and CMS	149.680,80
Business premises purchasing for head office	13.782,60
CMC construction Rijeka	9.006,00
CMS construction Veliki Bokolj	16.836,00
CMS Istria/Podravina	0,00
Purchasing of business premises for CMC head office Split	0,00
CMC Osijek construction (preliminary works)	0,00
Final construction works on CMS Plešivica	110.056,20
II Measuring and computer equipment	978.125,38
A) Purchasing of measuring equipment for CMS and CMC	417.271,25
Measuring system up-dating	361.534,33
Pre-amplifiers	0,00
DVB tester	0,00
Oscilloscopes	19.032,00
Measuring TV sets	0,00
Frequency counter	36.704,92
B) Purchasing of computer equipment	560.854,13
Purchasing of computer equipment	560.854,13
III Furniture	372.169,32
Furniture - Head office Zagreb and CMC	372.169,32
IV Investment in computer programmes	960.142,99
V Vehicles	308.970,00
VI Expert studies	973.700,00
VII Other equipment	76.831,09
T O T A L	3.819.619,58

Table 8.9: Investments in 2008 (HRK)

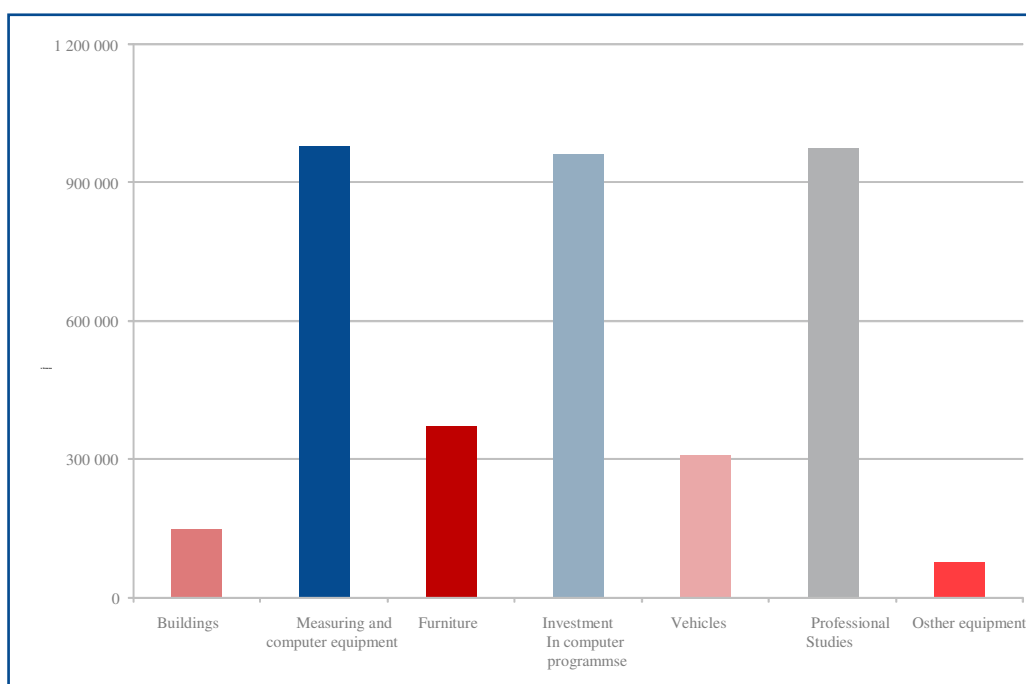


Figure 8.4: Investments in 2008

DESCRIPTION	<i>Electronic communications sector</i>	<i>Postal and courier services sector</i>
I Buildings	149.680,80	0,00
A) Construction of centres , CMC and CMS	149.680,80	0,00
Business premises purchasing for head office	13.782,60	0,00
CMC construction Rijeka	9.006,00	0,00
CMS construction Veliki Bokolj	16.836,00	0,00
CMS Istria/Podravina	0,00	0,00
Purchasing of business premises for CMC head office Split	0,00	0,00
CMC Osijek construction (preliminary works)	0,00	0,00
Final construction works on CMS Plešivica	110.056,20	0,00
II Measuring and computer equipment	976.076,38	2.049,00
A) Purchasing of measuring equipment for CMS and CMC	417.271,25	0,00
Measuring system up-dating	361.534,33	0,00
Pre-amplifiers	0,00	0,00
DVB tester	0,00	0,00
Oscilloscopes	19.032,00	0,00
Measuring TV sets	0,00	0,00
Frequency counter	36.704,92	0,00
B) Purchasing of computer equipment	558.805,13	2.049,00
Purchasing of computer equipment	558.805,13	2.049,00
III Furniture	372.169,32	0,00
Furniture - Head office Zagreb and CMC	372.169,32	0,00
IV Investment in computer programmes	960.142,99	0,00
V Vehicles	308.970,00	0,00
VI Expert studies	973.700,00	0,00
VII Other equipment	76.831,09	0,00
T O T A L	3.817.570,58	2.049,00

Table 8.10: Investments in 2008 per sectors (HRK)

INVESTMENT DESCRIPTION	PLAN 2008	<i>Electronic communications sector</i>
I Buildings	10.140.932,94	149.680,80
A) Construction of centres , CMC and CMS	10.140.932,94	149.680,80
Business premises purchasing for head office	4.900.932,94	13.782,60
CMC construction	1.265.000,00	9.006,00
CMS construction Veliki Bokolj	1.400.000,00	16.836,00
CMS Istria/Podravina	50.000,00	0,00
Purchasing of business premises for CMC head office Split	75.000,00	0,00
CMC Osijek construction (preliminary works)	2.000.000,00	0,00
Final construction works on CMS Plešivica	450.000,00	110.056,20
II Measuring and computer equipment	10.095.000,00	976.076,38
A) Purchasing of measuring equipment for CMS and CMC	9.200.000,00	417.271,25
Measuring system up-dating	8.000.000,00	361.534,33
Pre-amplifiers	120.000,00	0,00
DVB tester	370.000,00	0,00
Oscilloscopes	30.000,00	19.032,00
Measuring TV sets	120.000,00	0,00
Frequency counter	40.000,00	36.704,92
B) Purchasing of computer equipment	895.000,00	558.805,13
Purchasing of computer equipment	895.000,00	558.805,13
III Furniture	420.000,00	372.169,32
Furniture - Head office Zagreb and CMC	420.000,00	372.169,32
IV Investment in computer programmes	5.547.000,00	960.142,99
V Vehicles	300.000,00	308.970,00
VI Expert studies	2.510.000,00	973.700,00
VII Other equipment	30.000,00	76.831,09
U K U P N O	29.042.932,94	3.817.570,58

Table 8.11: Investments in 2008 compared to the financial plan (HRK)

8.6. PERSONNEL

On 31 December 2008 HAKOM employed 143 people. Compared to the previous year, the number of employees increased by 19%. Out of 23 newly employed in 2008, 10 came from the CPS. Most of the newcomers were employed on complex jobs related to the regulatory sector, consumer protection sector or the provision of expert supervision and control of the radio frequency spectrum.

Taking professional education into account it is clear that HAKOM employees are highly educated. Out of the total number of employees, 47% are women and 53% men. In the age distribution, employees from 30-40 years of age represent the majority.

Trends in the number of employees

Number of employees on 01 January 2008	120
- came in 2008	27
- left in 2008	4
Number of employees on 31 December 2008	143

HAKOM Employee structure analysis shown in Figures 8.5 and 8.6

Education	On 01 January 2008		On 31 December 2008	
	Number of employees	Structure (%)	Number of employees	Structure (%)
Ph.D.	1	1	1	1
Master's degree	6	5	10	7
University degree	71	58	83	58
Two-year post-secondary school qualifications	15	13	15	10
Secondary education	27	23	34	24
UKUPNO	120	100	143	100

Table 8.12: HAKOM personnel

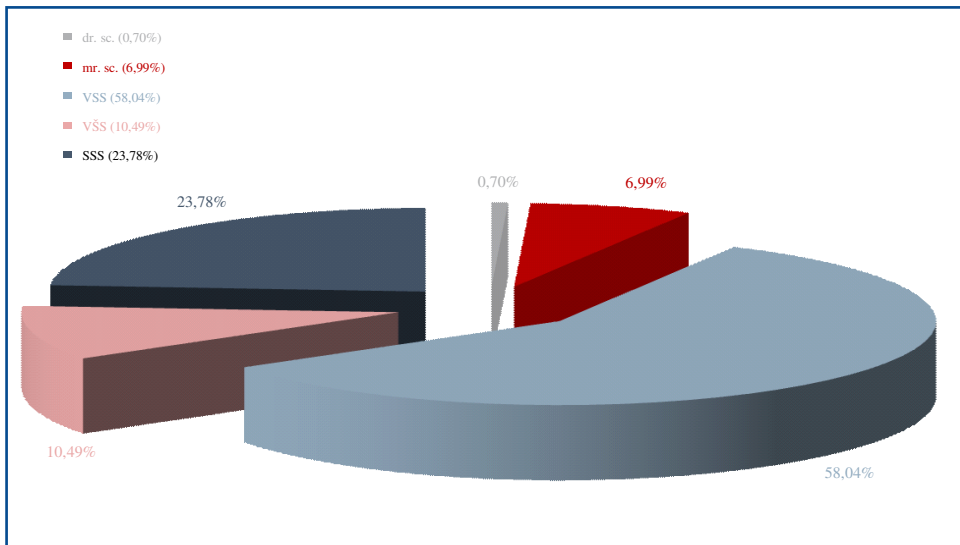


Figure 8.5: Personnel structure by education

Gender	On 31 December 2008	
	Number of employees	Structure (%)
Female	67	47
Male	76	53
TOTAL	143	100

Table 8.13: Structure of employees per gender

Age structure	On 31 December 2008	
	Number of employees	Structure (%)
Age 20 - 30	43	30
Age 30 - 40	52	37
Age 40 - 50	19	13
Age 50 - 60	16	11
Age 60 - 70	13	9
TOTAL	143	100

Table 8.14: Personnel age structure

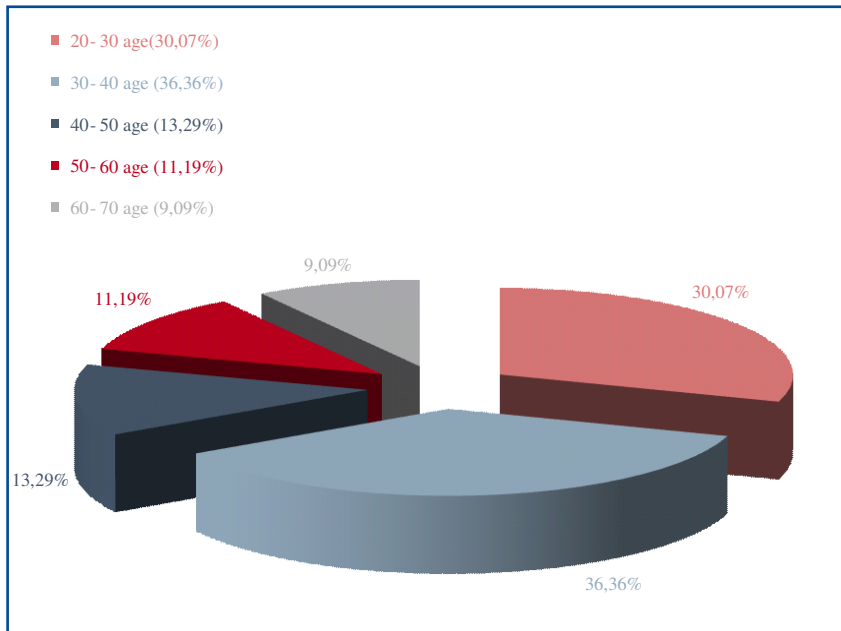
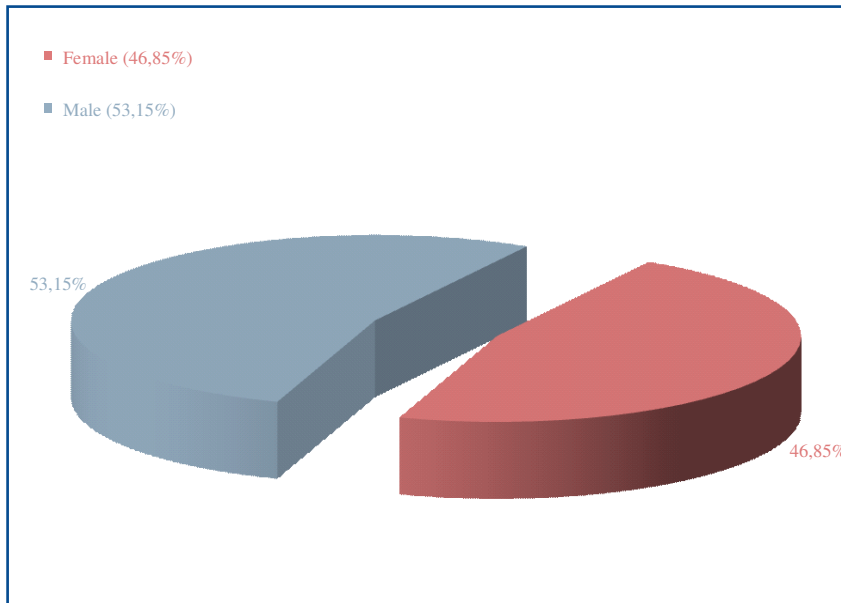


Figure 8.6: Personnel structure per gender and age

8.7 STATE BUDGET REVENUE

Pursuant to the Ordinance on payment of the fee for the provision of telecommunications services and activities and the Ordinance on payment of the fee for assignment and use of radio frequencies, in 2008 and earlier HAKOM collected funds for itself and on behalf of the state budget, paid to the state budget.

During 2008 regulations changed and funds were paid directly to the account of the state budget, and HAKOM only produced invoices for and on behalf of state budget (came into force in 2009).

Off-balance items were organised to register state budget funds, analytically per users and issued invoices for and in name of the state budget. State budget funds paid to HAKOM bank account shall be immediately paid in the state budget.

Amendments to accountancy principles did not influence the state budget revenue.

The total amount of HRK 408 588 183.27 was invoiced in 2008. The uncollected debts amount to HRK 100 683 914.98. A large part of these debts does not refer to overdue payment, while due date is in 2009. A part of declared debts represents income in 2009, because, pursuant to the specified Ordinances, the billing refers to the next year.

By 15 April 2009, out of HRK 100 683 914.98 billed uncollected debts, the amount of HRK 64 319 080.19 was collected. This amount was paid to the state budget in 2009.

State budget revenue consists of income from the fee to use radio frequencies (95%), income from concessions, income from applications, authority and licenses, income from overdue interest and interest from application for bidding.

Tables 8.15 through 8.17 show the analysis of state budget revenue

DESCRIPTION		PLAN 2008	REALISATION 2008	Index
1.	Income from fees for the use of radio frequencies (95% of fees)	232.106.277,91	292.281.522,79	126
2.	Income from concessions	20.409.233,28	8.735.801,48	43
3.	Income from applications, authority and licenses	7.143.410,47	6.146.565,01	86
4.	Income from overdue interest	246.159,07	723.416,59	-
5.	Income from application for bidding and supplying bidding documentation	20.000,00	2.150,00	11
TOTAL		259.925.080,73	307.889.455,87	118

Table 8.15: State budget revenue in 2008 (HRK)

DESCRIPTION		INVOICED	REALISATION IN 2008	DEBTS
1.	Income from fees for use of radio frequencies (95% of fees)	357.679.014,94	292.281.522,79	65.397.492,15
2.	Income from concessions	43.016.205,97	8.735.801,48	34.280.404,49
3.	Income from applications, authority and licenses	6.640.077,37	6.146.565,01	493.512,36
4.	Income from overdue interest	1.250.734,99	723.416,59	527.318,40
5.	Income from application for bidding and supplying bidding documentation	2.150,00	2.150,00	0,00
TOTAL		408.588.183,27	307.889.455,87	100.698.727,40

DESCRIPTION		DEBTS ON 31December2008	PAID IN 2009	ADJUSTED DEBTS
1.	Income from fees for use of radio frequencies (95% of fees)	65.397.492,15	57.612.425,45	7.785.066,70
2.	Income from concessions	34.280.404,49	6.637.613,32	27.642.791,17
3.	Income from applications, authority and licenses	493.512,36	51.305,02	442.207,34
4.	Income from overdue interest	527.318,40	17.736,40	509.582,00
5.	Income from application for bidding and supplying bidding documentation	0,00	0,00	0,00
TOTAL		100.698.727,40	64.319.080,19	36.379.647,21

Table 8.16: State budget revenue referring to payment (HRK)

DESCRIPTION		2003	2004	2005	2006	2007	2008
1.	Income from concession	22.363.624,36	286.971.818,19	188.309.174,96	16.743.159,70	17.892.219,35	8.735.801,48
2.	Income from licenses	0,00	16.144.729,83	627.894,65	0,00	4.915.588,56	6.146.565,01
3.	Income from applications and authority	0,00	1.493.066,15	826.977,27	1.098.834,08	1.101.704,81	0,00
4.	Income from frequencies	88.933.724,84	141.410.153,70	173.486.451,53	204.822.259,32	263.152.876,04	292.281.522,79
5.	Income from tender documents	910.700,00	707.825,09	26.761,58	6.609,00	1.700,00	2.150,00
6.	Income pursuant to previous Ordinances	4.671.350,69	2.597.878,88	0,00	0,00	10.180,08	0,00
7.	Interest income	327.760,64	294.997,27	508.249,40	177.485,68	357.087,38	723.416,59
TOTAL		117.207.160,53	449.620.469,11	363.785.509,39	222.848.347,78	287.431.356,22	307.889.455,87
% in comparison to previous year		-	384	81	61	129	107

Table 8.17: State budget revenue (years 2003-2008) (HRK)

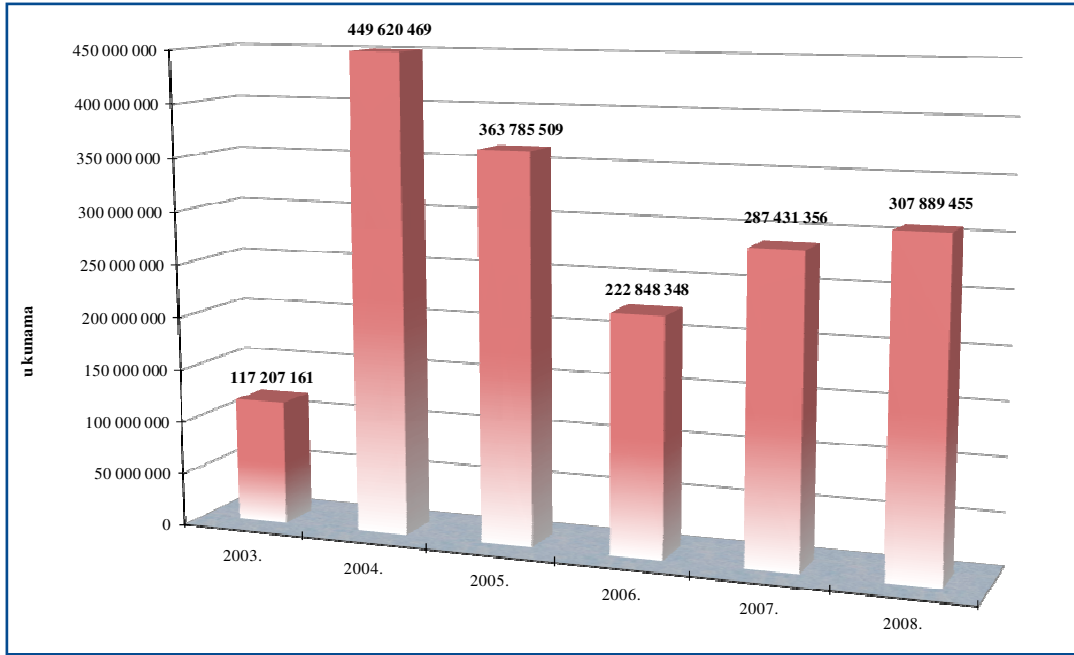


Figure 8.7: State budget revenue - years 2003-2008

SUMMARY

REVIEW OF THE ELECTRONIC COMMUNICATIONS MARKET

Even though official information on the state of the electronic communications market in 2008 shall be available only at the end of May 2009, it can be concluded that the electronic communications market realised stable income growth. Aggregate income in the sector of electronic communications grew in the year 2008 in comparison with the previous year 2007 by 3.43 per cent.

The highest income growth was made in sector of data transmission, which is a result of the fast development of broadband Internet access. It is followed by the growth in the mobile networks income by 3.03 per cent despite the price decrease. The phenomenon “lower price, higher income”, typical for world market of electronic communications, works efficiently in Croatia as well for these activities. Income growth for fixed networks is much lower with 0.92 percent.

PUBLIC SWITCHED TELEPHONE NETWORK

The number of subscribers to public voice service via fixed network in Croatia is stagnating due to the switching from fixed networks and to broadband Internet access. At the end of 2007, Croatia was in the average of the EU countries concerning density of the number of users of fixed communications network.

The share of new operators on the market of public switched network in Croatia at the end of 2008 increased in relation to the number of users, and is 22.35 per cent. The aggregate income made during 2008 increased as well and is 16.99 per cent. The relation between the share in income and in the number of users for the new operators increased in the previous year from 0.65 to 7.76. This shows that new operators work in better market conditions when compared to the year 2007.

PUBLIC MOBILE NETWORK

The number of mobile network users increased significantly in 2008. The most important reasons for the increase were: lower prices, higher market competition realised by the entry of the third operator on the market and general trend to use more mobile networks. Comparison of the Croatian density of mobile networks users with the density in the EU countries in October 2008 shows that Croatia is above the average results for the EU countries, indicating that the market in Croatia is well developed and liberalized.

Concerning the users density, the share of the third operator on the mobile network market increased from 9.34 to 11.96 per cent in 2008, while the share in income increased from 6.56 to 7.57 per cent.

OECD public voice service basket in mobile network shows continuous price decrease for services in mobile networks. Analysis of price trends shows that the prices for mobile network services are higher than the EU countries average.

INTERNET

The development of the Internet, broadband access and broadband services in the world are recognised as the key drivers of total economic growth, employment and

competitiveness as well as the imperative factor in more efficient health services, education, science, tourism etc.

The total number of Internet users shows the tendency to increase fast, faster than the increase in the EU countries. In the previous year, the number of Internet users increased by 12.5 percent and reached user density of 50.6 per cent when compared to the number of inhabitants, which places Croatia among the EU countries average results.

On the other hand, referring to broadband access, the desired competition does not exist in Croatia compared to EU countries. The number of users of broadband Internet access via fixed network in 2008 increased by 35.58 per cent, making the density of 11.83 per cent in relation to the number of inhabitants. Broadband Internet access service via mobile networks was introduced in 2008, which contributes to the total use of broadband connections, amounting to 15.4 per cent in total.

The uneven distribution of broadband connections through counties should be emphasized here. Referring to the already mentioned, the Government of the Republic of Croatia has recommended selective incentive policy for the development of broadband Internet access, which proved to be justified. HAKOM contributed to the faster development of broadband access through monthly fees for full or shared access to unbundled loop, which are among the lowest in Europe.

DIGITAL TELEVISION

EU is trying to accelerate the process of switching to terrestrial DTV to free the spectrum for additional television contents and new information and communications services. European Commission has published a Recommendations to switch off the analogue terrestrial TV by 2012. It has been estimated that not all the EU countries shall be able to finish the process by that time, because the starting point is not the same for all countries, and the time of process commencing is not the same.

The process of switching to DTV in the Republic of Croatia is in progress. The DTV signal coverage has been provided for almost 85 per cent of inhabitants. Big cities such as Zagreb, Split, Rijeka, Osijek, Zadar, Pula, Dubrovnik etc already have signal coverage.

REVIEW OF THE POSTAL SERVICES MARKET

Pursuant to the submitted data from unrevised financial statements, or estimated data for providers who in addition to postal and courier services provide other services as well, aggregate income of active postal and courier services providers in 2008 is approximately at the same level as in 2007. Postal and courier services partake in the aggregate income with 59 per cent.

The only provider of the universal postal services, HP (Croatian Post) participates in the aggregate income with 64 per cent, and shows the income decrease of 8 per cent in comparison with the results in the previous year. The group other providers participates in the aggregate income with 36 per cent and shows increase of income by 17 per cent. HP, with 70 percent share in aggregate expenses, increased its expenses by approximately six per cent and the group other providers with 30 percent in aggregate expenses, increased their expenses by 12 percent. The result of such trends was the increase of income in 2008 for the group other providers in comparison with the year 2007, while HP incurred loss.

POSTAL AND COURIER SERVICES

Postal and courier services in Croatia, except for postal services reserved only for the public operator, may be provided on the basis of the licence or application. There was total number of sixteen postal and courier services providers applied at the end of 2008, out of which 14 were active, and one provider of universal postal services.

Nine (9) providers applied only for courier services, four (4) for courier services and document exchange services, and three (3) for courier services, services of reception, transport and delivery of press and documents exchange as well. In addition to postal services, HP provides other postal and courier services. Regarding the territory where services are to be provided, seven providers applied for the territory of the Republic of Croatia and international traffic, eight applied only for the territory of Croatia, and one only for providing international services.

INFORMATION ON SERVICES

According to the supplied information, the operators of postal and courier service in 2008 provided the total of 401 739 185 postal, courier and related services, which shows almost the same level of services as in 2007. The group other providers increased its share in the aggregate number of realised services in 2008 in relation to HP and with reference to all service categories, except for the category of unaddressed postal items. The structure of the total number of realised services, mail items made 93 per cent of all services provided by HP, while mail items with the group other providers took 82 per cent. It is important to stress that 90 per cent of services were performed on domestic market.

REGULATION OF ELECTRONIC COMMUNICATIONS MARKET

HAKOM activities in 2008 were primarily directed to promotion of efficient market competition, and to stimulation of new operators to enter the market. While doing it, HAKOM was taking care especially on ensuring services of good quality at acceptable prices, and on high level of consumers protection. HAKOM Council adopted in 2008 many decisions to continue the process of regulation of electronic communications market.

REGULATION OF OPERATORS WITH SIGNIFICANT MARKET POWER

At the end of 2007 HAKOM published a list of relevant markets and operators with the significant market power. During 2008 HAKOM commenced the procedure of market analysis to define efficiency of market competition, and, depending on market analysis results, defined new regulatory liabilities for the operators with the significant market power.

ELECTRONIC COMMUNICATIONS SERVICES IN FIXED NETWORK

During the previous year, HAKOM commenced the process of modification of HT standard offer for providing interconnecting services. The process ended in a manner that the price at local level was decreased for 14.3 percent, and the price at the regional level for 21 percent. In 2008 HAKOM approved new minimal offer modified in a manner to enable further development of line leasing market. At the beginning of 2008 modified standard HT offer for access to unbundled local loop came into force, giving the new operators opportunity to use expansion of transmission and access technology. HAKOM

increased fees to be paid by HT to the new operators in case of delay in providing service of unbundled local loop.

In July 2008 HAKOM modified HT standard offer for the service of access to unbundled local loop, taking into consideration the situation on the electronic communications market. In 2008 HAKOM approved new standard offers for providers of value added services, telephone voting service included (061).

INTERNET ELECTRONIC COMMUNICATIONS SERVICES

Total number of Internet users in Croatia has significantly increased, so that at the end of 2008 more than half of Croatia citizens used Internet. Increase in number of users of broadband Internet access is very important; it increased in 2008 by 35.57 percent. By providing its activities HAKOM influenced the achievements of these results, through adopting many decisions and resolutions important for further liberalisation and regulation of electronic communications market.

The incentive programme of developing broadband Internet access users in areas of special state care and hill and mountain areas contributed to the increased number of broadband users. Furthermore, HAKOM implemented the project directed at assigning incentive funds for the connection of parent and regional primary schools on islands into the CARNet network, and establishing the system for e-learning. By adopting the decision in April 2008, HAKOM modified wholesale prices for ADSL transmission services, resulting in a decrease of the fee for the provision of ADSL transmission services by 56.4 percent. These fee modifications have positively influenced further development of offer and demand of broadband Internet access, shown by market indicators, higher number of users.

ELECTRONIC COMMUNICATION SERVICES IN MOBILE COMMUNICATIONS NETWORK

The mobile communications market in 2008 was marked by the increase of user density (at the end of 2008 the growth was 132.55 percent), growth of ported numbers, better coverage of GSM and UMTS signals, enlarged offer of the services for end users, significantly lower prices, further development of personalised tariff packages and further strengthening of the market share of the third operator of mobile communications network.

In July 2008, the Council of HAKOM granted consent to the new standard offers for network access and interconnection of mobile network operators with the significant market power, and in December 2008 HAKOM initiated the new process of amending the standard offers of T-Mobile and Vipnet, concerning the price of call termination. The mentioned process was completed in such a way that that the price of call termination was lowered by 14.5 percent.

TELEVISION NETWORKS

In 2008, HAKOM continued its intensive activities on planning and ensuring conditions for putting into operation of the future DTV network. As a part of the aforementioned activities, HAKOM ensured technical conditions and prepared technical parameters for two DVB-T multiplexes, two SFN networks for the entire territory of the Republic of Croatia. Furthermore, technical conditions were ensured and parameters issued for two DVB-T HD multiplexes in Zagreb, Split and Rijeka and one DVB-T HD multiplex in Osijek, which enabled experimental broadcast of HDTV signal from UEFA EURO 2008.

Additional technical conditions were ensured and technical parameters issued for the experimental operation of two DVB-H multiplexes in the Zagreb area.

HAKOM prepared draft tender documents for issuing the license for the use of the radio frequency spectrum for two multiplexes for DTV in the territory of the Republic of Croatia. Public debate on the draft was organized, and some of the proposals and comments were partially included into the amendments to the tender documents.

ELECTRONIC COMMUNICATIONS INFRASTRUCTURE AND CONDTITIONS FOR CONSTRUCTION

Building and access to electronic communications infrastructure represents a significant factor in the liberalisation of the electronic communications market. In February 2008, the Council of HAKOM adopted a Decision on the Conditions of shared use of the constructed telecommunications ducts. Since that moment there have been no cases of negative technical decisions with which HT would deny the existence of free space and refuse to conclude the contracts on leasing electronic communications infrastructure and associated facilities, which has significantly increased the possibilities for new operators to access new users.

SUPERVISION AND CONTROL, DETERMINATION AND ELIMINATION OF INTERFERENCE

Supervision and control is the basic manner of determination of situation in the field and of the implementation of regulatory measures on the electronic communications market. During the entire 2008, HAKOM conducted extensive measurements on four occasions, for the purpose of control and supervision of use of the microwave links, the operation of broadcasting radio stations in accordance with granted licenses, operation of FM radio stations in accordance with the technical standard prescribing the deviation of frequency modulated signal and of RF spectrum supervision in the coastal area. Special attention was given to interferences in radio and television frequency bands.

In addition to supervision and control, during the entire 2008, HAKOM carried out systematic measurements of the RF spectrum and identification of radio stations from the neighbouring countries for the purpose of the RF spectrum protection of the Republic of Croatia. Measurements have also been conducted for the needs of frequency planning and international harmonisation of the use of RF.

DEVELPMENT OF POSTAL AND COURIER SERVICE MARKET

Before the entry into force of the ECA in July 2008, which stipulated that the tasks related to the provision of postal and courier services shall be taken over by HAKOM, the regulatory activities regarding the provisions of postal and courier services were carried out by the Council for Postal Services (CPS).

In 2008, no application for the provision of universal postal services was received, so HP continues to be the only provider of universal postal services in the Republic of Croatia. In 2008, two valid applications were received for providing postal services that are not universal and courier services, and two providers were deleted from the Records of Providers, one for deletion from the court register and the other for the declaration of the termination of provision of declared services.

At the end of 2008, there was a total of sixteen registered providers of postal and courier services in the Republic of Croatia. Out of the sixteen, fourteen were active. In 2008, HP submitted amendments to General business terms and conditions on two occasions. HAKOM gave its prior consent to the amended text of General business terms and conditions in January and October 2008. In addition to the public operator, five other registered providers were given consent to General business terms and conditions in 2008.

In 2008, HP applied prices for reserved postal services defined by the temporary regulatory body decision adopted in 2007. In October 2008, HP submitted the Decision on the introduction of new weight rate for letters in domestic and international traffic to HAKOM, as well as the proposal for the prices of letters in the domestic traffic. The specified decision introduced new weight rates. In November 2008, HAKOM adopted a new decision defining prices for reserved postal services.

The public operator is obligated to apply organisational and accounting measures enabling unambiguous determination and regular monitoring of income and expenditures for every type of provided service, and to submit them to the regulatory body. In 2008, the public operator submitted data on the allocation of income and expenditures for the year 2007 showing that the public operator has applied the new manner of distribution of income and expenditures. However, the public operator has not fulfilled all obligations on accountancy separation and managing business activities.

In 2008, the public operator submitted the draft of the Ordinance on access to public postal network on two occasions. Since not all required elements and HAKOM 's remarks were taken into consideration, granting consent to the general act on access to public postal network is still in progress.

By July 2008, expert supervision over six providers of postal and courier service was performed while in one case the supervisor was prevented from further provision of expert supervision. The postal inspector in the Directorate for Transport Inspection at the Ministry of the Sea, Transport and Infrastructure was informed of the disability to perform expert supervision, as well as of determined irregularities, and motion for initiating measures was given.

In April 2008, HP submitted the annual report on the state of quality of universal postal services provision for 2007 to the regulatory body which did not contain all required information. The public operator HP submitted the amended annual report on the state of quality of universal postal services provision for 2007. On the basis of indicators and of the results of measurements by the regulatory body, it has been established that the quality of transfer of priority letters in domestic traffic is not in accordance with the provisions of the Ordinance.

In the course of 2008, the public operator has closed down fourteen (14) post offices and submitted a request for granting consent to closing down four (4) more post offices. HAKOM has not granted consent to the closing down of the specified offices, but has invited the public operator to re-examine the decision on the closing down. In 2008, the public operator has notified HAKOM on its intention to temporarily close eight (8) post offices.

The project " Support to the Council for Postal Services" within the CARDS 2004 programme was completed in March 2008. The main objective of the project was to introduce, keep and promote efficient and sustainable market competition on the postal service market, and strengthen HAKOM administratively, in order to make it function independently in the postal service sector in accordance with the *acquis communautaire*.

CONSUMER PROTECTION

During 2008, HAKOM continued with the activities related to consumer protection trying to ensure a high level of electronic communications consumer protection.

ANALYSIS OF USERS' COMPLAINTS TO BILLS AND QUALITY OF SERVICES

By establishing a Department for the protection of users and network security at the end of 2007, which set the analysis processes of users' complaints, the efficiency of the Council of users of telecommunications services in the resolution of disputes with operators has increased. By introducing the programme for recording and analysing cases at the beginning of 2008, a comprehensive analysis of received complaints was enabled.

In the previous year the increase in the number of complaints was registered which is caused by a bad relationship between the operator (service provider) and users, and better level of information of the users and by the fact that confidence in HAKOM has grown. The complaints refer to: a) complaints to the bills for public communications services and b) to the quality of public communications services. It can be noticed that over 70% of complaints refer to issued bills and that this type of complaints has grown by 65% when compared to the previous year and requires special analysis. Out of the total number of complaints to the bill, as much as 60% are complaints to bills issued by value added service operators. The number of complaints concerning bills issued by value added service operators grew by 226% in the previous year, whereas the increase compared to the year 2006 amounts to 7 660%. Such increase show ever more aggressive and less professional approach to the market of the operators of the value added services .

As the number of complaints concerning the bills issued by value added services is extremely high, it has been established by individual analysis of received complaints that the complaints mostly refer to prize contests and services realized through commercial TV broadcasters in various "interactive" quiz shows. On the basis of these discoveries, HAKOM has redefined the manner of users protection by the Ordinance on the manner and conditions for the provision of electronic communications networks and services, which particularly regulate the provision of value added services.

NEW MANNERS OF USER PROTECTION

Pursuant to the ECA, HAKOM is competent for the resolution of disputes between subscribers and operators of public communications services and adopt binding decisions, which was not the case previously, ensuring high level of user protection. HAKOM resolves disputes on the basis of the opinion of the internal organisational unit for the protection of rights of user , within which two representatives of consumer protection associations take active participation, in a transparent and objective manner. The decisions on the dispute resolution shall be adopted by the Director of HAKOM thus achieving the principle of efficiency of proceedings, taking into account low values of the dispute.

Using the framework and space provided by the ECA, HAKOM has approached the redefinition of manner, approach and protection of user. Special care has been paid to the code of conduct of the value added service operators, which resulted from the analysis of complaints to these services; this code of conduct provides the protection both to the users and providers of the value added services. The Code of Conduct is the obligation of value added service operators to ensure that at the beginning of every call made to a value added

service, and before the start of provision of service, the call price and the start of the charge are announced, and to enable the termination of call upon announcing the price within a minimum of two seconds, without charging the call, in order for the user to be able to terminate the service use on time.

HAKOM pays special attention to the protection of children against contents unsuitable for children. For this purpose, HAKOM has prescribed the following :

- operators of public communications services are obligated to ensure the possibility of banning access to services the contents of which are unsuitable for children, if technically feasible,
- operators of public communications services are obligated to offer and enable users the service of banning access to contents unsuitable for children at the conclusion of contract,
- operators of public communications services are obligated to keep records on access numbers and addresses the contents of which are unsuitable for children, update them and exchange them among themselves.

WORK PROGRAM REALISATION

HAKOM implements the adopted Strategic and Operative Plan through two work programmes: a) Convergence – outward oriented and focused on the development of market and market competition and regulatory frames and b) Modernisation – inward oriented and focused on increasing capacities and own ability to regulate market.

REALISATION OF E-AGENCY PROJECT

The main objective of the e-Agency project is to increase HAKOM's capacities through the computerization of processes and services by increasing the productivity and efficiency, and by widening and facilitating access to HAKOM's regulatory services. In 2008 HAKOM has initiated the implementation of *e-Agency*, a powerful, e-government-based integrated information system. The *e-Agency* is based on the so-called "Back Office", whose layered architecture includes IT infrastructure (local network, servers, clients and primary software), Document Management System (DMS), Human Resources Management System (HRM) and Enterprise Resource Planning (ERP). The implementation of the "Back Office" was completed in 2008.

In 2008, HAKOM has initiated the building of the so-called "Front Office" which will consist of a modern and powerful Portal including numerous electronic and Internet-based applications, such as *e-consultations*, *e-complaints*, *e-portability*, *e-licenses*, *e-market*, *e-tender*, *e-auction*, *e-advice*, *e-price*, *e-offer* and the like.

DEVELOPMENT OF REGULATORY COMPETENCIES

In the course of 2008, HAKOM continued with the improvement of skills and competencies of its employees. The work and operation of the regulatory body is closely connected to a corresponding number and educational structure of employees, and requires monitoring and evaluation of very important expert (electronic communications

and postal), legal and economic issues. the changes in the market require continuous training of all the HAKOM employees.

The most important projects for the development of regulatory competencies are: a) multi-disciplinary post-graduate study of the regulation of electronic communications market, launched in cooperation with the Faculty of Electrical Engineering and Computing, Faculty of Economics and Business and Faculty of Law in Zagreb, and b) “View into the Future” project, with interest in future development of technology, new regulatory issues introduced by the new technology, new regulatory issues, economic and legal aspects of pro-active, neutral and transparent market regulation, incentive measures for investments and innovations.

PUBLICITY OF HAKOM'S WORK AND INFORMING THE PUBLIC

In 2008, HAKOM developed and improved the publicity of its work. Consequently, it has informed all interested parties on the market of electronic communications and postal services on its activities. HAKOM publishes decisions and other administrative acts on its web site and in the “Official Gazette”. HAKOM carried out public consultations on its websites, kept and regularly updated databases within its competence. HAKOM also regularly published statistical data on markets of electronic communications and postal services. In addition, in the last year HAKOM held periodic meetings, workshops and seminars with interested market participants.

In November 2008, the publication “Survey of satisfaction and use of postal and courier services in the Republic of Croatia” was published. This Survey shall serve the providers of postal and courier services and other interested institutions and individuals to get a better insight into the satisfaction and use of postal and courier services.

ACTIVITIES RELATED TO THE NEW ACT

With the entry into force of the ECA, HAKOM found itself faced with the challenge of fast implementation of the new enacted law and integration and consolidation of regulation of the postal services market. HAKOM drew up a plan of adopting executive regulations, determined expert groups (leader, participants) and defined deadlines for drawing up the draft executive regulation. In the performance of the specified legal task, HAKOM cooperated with the Ministry of the Sea, Transport and Infrastructure and the Ministry of Foreign Affairs and European Integration. Immediately upon the adoption of the ECA, HAKOM initiated, and in 2008 completed the drawing up of seven Ordinances. HAKOM focused on the integration process of members and employees of the former CPS. The consolidation of regulation of postal services is a long-term process still awaiting HAKOM.

CLOSING OF CHAPTER 10 “INFORMATION SOCIETY AND MEDIA”

In the last year HAKOM, aware of its role in the process of Croatian accession to the EU, made strong efforts to fulfil the set goals in cooperation with the Ministry of the Sea, Transport and Infrastructure and other ministries and government administration bodies and to contribute to Croatia’s full membership as soon as possible. With the entry

into force of the ECA, HAKOM was given a number of obligations considering its implementation in the last year, which it fulfilled quickly and successfully.

According to the EC document defining benchmarks for closing Chapter 10, HAKOM ensured sufficient administrative capacities for the implementation of the acquis and provided clear evidence of the implementation of enforced regulatory measures for the operators with significant market power and the rights of new operators on the electronic communications market.

The representatives from the EC, during evaluation in October last year, noticed a high level of harmonisation of regulations and practice with the *acquis communautaire*. Closing of Chapter 10 “Information society and media” represents the approval of HAKOM’s good and efficient work.

INTERNATIONAL COOPERATION

In the course of 2008, two projects financed by the EU were successfully completed: CARDS 2004 and PHARE 2005 PPF. Within the PHARE 2006 PPF and IPA 2007 programmes HAKOM ensured funds in the amount of EUR 4.2 million, to be used for further strengthening of institutional and administrative capacity, and purchasing modern equipment for supervision and measuring of the radio frequency spectrum.

Through international activities, HAKOM took part in adopting important documents that may influence the regulation of postal and electronic communications market at European and national level. Furthermore, through international cooperation and contacts with regulatory bodies of other countries the exchange of experience and information was realised, resulting in better understanding of the entire European market of electronic communications, market development and insight into experience and best practice of regulation.

ABSTRACT FROM ANNUAL WORK PROGRAMME FOR 2008

„In the course of 2008 HAKOM shall enforce regulatory activities publicly and in transparent manner including public consultations with all market participants. For the purpose of doing so, HAKOM shall improve the current communications with the public and operators and service providers by holding regular meetings and through its web site. HAKOM initiated the project of upgrading its web site under the leadership of special appointed project team. Data base has been established which enables HAKOM to make available all the data and information gathered on the telecommunications infrastructure. Data input is currently in progress, and shall be continued during 2008.

On the basis of the adopted HAKOM Strategic and Operative Plan, the Program of modernisation and convergence managers have been appointed. Time limits and manners of time limit following have been established. HAKOM shall publish all the results of these activities, improve public relations department and start publish printed subject material.

The special emphasis shall be given to the cost model project to set prices for telecommunications services, and on market analysis to be implemented in cooperation with EC experts.

HAKOM, or the Council of HAKOM, shall work on draft by-laws pursuant to the Act, and shall initiate amendments to by-laws in case some difficulties arise during its implementation.

HAKOM shall work out directives and recommendations for all the parties on the telecommunication market, for the purpose of better informing the users, operators and services providers, and to provide better conditions for further investments in telecommunication sector of the Republic of Croatia.

In 2008, HAKOM shall continue to build business information system, in order to provide for the settlement of cases which fall under its competence within the prescribed statutory terms. For that purpose, HAKOM plans to procure new and upgrade the current software packages and applications. HAKOM aims to carry out part of data exchange with operators, particularly filling-in of various forms, completely electronically.

During 2008, HAKOM plans to continue to improve the employee expertise and training, in order to create conditions for the implementation of the electronic communications market regulation by the acquisition of necessary skills and experience, and to realize the objectives set by the Strategic and Operative Plan.

High level of protection of telecommunication services users is one of the objectives that HAKOM shall keep to fulfil in cooperation with the Council for protection of telecommunication services users, for which it performs expert, administrative and technical tasks. We expect to improve the cooperation and protection of users, as the result of the recently formed Department competent for these tasks. HAKOM shall work on the improvement of conditions to provide services, important for the users, of carrier pre-selection and number portability.

HAKOM shall continue implementing the principles and goals to regulate the telecommunication market, and by doing this HAKOM shall cooperate with the Agency

for protection of market competition, especially in case of abuse of dominant position on the telecommunication market.

HAKOM expects further trend in the price reduction in mobile networks by 10 percent in 2008. The share increase of new operators in fixed networks is expected to become more than 20 percent market share, and further price reduction of telecommunications services by 5 percent.

The number of broadband connections was doubled in 2007. HAKOM shall, on the basis of public invitations, grant incentive funds for the development of broadband infrastructure at targeted geographical area, thus improving availability of broadband Internet access and enabling diversity of broadband services offers by all the operators.

HAKOM expects the number of broadband connections to be more than 550.000 till the end of 2008, due to improved regulatory framework, which is higher than the number expected by the Strategy of development of broadband Internet access till 2008 adopted by the Government of the Republic of Croatia.

HAKOM shall stimulate in particular:

- Market competition in the supply of electronic communications services
- Continuous growth and early implementation of the modern communications technology;
- Stable, interoperable and reliable communications infrastructure;
- Affordable supply of communications services to all Croatian users;
- Efficient use of the radio frequency spectrum;
- Accelerated growth of broad-band products and services;
- Increased reliability of communications in emergency situations;
- Further development of Croatian economy.

Pursuant to EC documents that set the measures to close Chapter 10, Information society, HAKOM shall ensure sufficient administrative capacities for implementation of the *acquis communautaire*, and supply clear data and information on implementation of the imposed regulatory measures for the operators with the significant market power and supply information on the rights of new operators on electronic communications market, including collocations and shared use of telecommunication infrastructure.

HAKOM shall pay special attention to the creation of the regulatory environment that will enable and stimulate investment in the electronic communications infrastructure. In doing so, HAKOM shall particularly pay attention to stimulate a balanced development so that electronic communications services may become equally available to all the citizens of the Republic of Croatia, regardless of their place of residence.

HAKOM is aware of its role in the process of the accession of the Republic of Croatia to the European Union, and it shall make maximum effort to, in cooperation with the Ministry of the Sea, Transportation and Infrastructure and other ministries and government administration bodies, fulfil the goals set in this Programme, and thus contribute to as early as possible accession of the Republic of Croatia to fully-fledged EU membership.

List of acronyms

- ADSL** - Asymmetric Digital Subscriber Line
- ARPU** - Average Revenue Per User
- ATV** - Analogue television
- BRIFIC** - Bureau Radio International Frequency Information Circular
- CABP** – Central administrative basis of ported numbers
- CARDS** - Community Assistance for Reconstruction, Development and Stabilization – one of the pre-accession programmes of the European Union
- CARNet** - Croatian Academic and Research Network
- CEPT** - European Conference of Postal and Telecommunications Administrations
- CERP** - European Committee for Postal Regulation
- COCOM** - Communications Committee
- DCS** - Distributed Control System
- DMS** - Document Management System
- DTV** - Digital television
- DVB-T** - Digital Video Broadcasting – Terrestrial
- DVB-H** - Digital Video Broadcasting – Handheld
- EC** – European Commission
- ERG** - European Regulators Group
- ERP** - Enterprise Resource Planning
- EU** - European Union (27 Member States)
- EUROSTAT** - Statistical Office of the European Union
- FM** - Frequency Modulation
- GSM** - Global System for Mobile Communications
- HAKOM** – Croatian Post and Electronic Communications Agency
- CTA** – Croatian Telecommunications Agency
- HD** - High Definition
- HDTV** - High Definition Television
- HF** - High Frequency
- CP** – Croatian Post d.d..
- HT** - Hrvatske telekomunikacije d.d.
- HRM** - Human Resource Management

IRG - Independent Regulators Group

ISP - Internet Service Provider

ITU - International Telecommunication Union

SCM - Station for control and measuring

CCM - Centre for control and measuring

LRIC - Long Run Incremental Cost

MVPEI - Ministry of Foreign Affairs and European Integration

MZOPUG – Ministry of Environmental Protection, Physical Planning and Construction

NGN - New Generation Network

Official Gazette

PHARE - Poland and Hungary: Assistance for Restructuring their Economies - one of the pre-accession programmes of the European Union

PSTN - Public Switched Telephone Network

RF – Radio frequency

R&TT - Radio equipment and telecommunications terminal equipment

SFN - Single Frequency Network

SMP - Symmetric Multiprocessing

TDM - Time Division Multiplexing

OECD - Organisation for Economic Co-operation and Development

UMTS - Universal Mobile Telecommunications System

WGFM - Working Group Frequency Management

UPU - Universal Postal Union

VAS - Value Added Service

VHF - Very High Frequency

Croatian Government - Government of the Republic of Croatia

CPS – Council for Postal Services

VoIP - Voice over Internet Protocol

ECA – Electronic Communications Act

ZOP – Postal Act

ZOPUG - Physical Planning and Construction Act

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