

Zagreb - 28 February 2008

## T-Hrvatski Telekom results for Financial Year 2007

Market leadership and strong financial performance; stated targets achieved; dividend proposal of HRK 29.56 per share which equates to a dividend payout ratio of 100%

### Group Highlights:

- **Consolidated Revenue** increased by 2.3% over Financial Year 2006, amounting to HRK 8,838 million (EUR 1,204 million)
  - Growth in Mobile, Internet and Wholesale services compensated for expected lower fixed telephony revenues
  - Maintained our leading market position in all business segments
- **EBITDA before exceptional items** remained stable at HRK 4,050 million (EUR 552 million) with margin of 45.8%
- **Net Profit** of HRK 2,471 million (EUR 337 million) increased by 11.6% over 2006, mainly as a result of one-off income related to investment in HT Mostar
- **Net Cash flow from operating activities** remains robust at 3,155 million (EUR 430 million) in spite of a decrease of 18.6% related to working capital
- **T-Mobile segment:** Following the market trend of stronger SIM growth than revenue growth as a consequence of multiple SIM usage and further penetration of the lower end of the market, a significant growth of 10.5% in subscribers enabled unconsolidated revenue growth of 5.1% over 2006
- **T-Com segment:** ADSL mainlines increased by 59.9% year-on-year raising the household broadband penetration in Croatia to a level of 22% (internally estimated); MAXtv, the Group's successful IPTV service, reached 43,734 customers at the period end, following the launch of this service in late 2006
- **Dividend payment proposal:** the Supervisory Board of HT – Hrvatske telekomunikacije d.d. and the Management Board have decided to propose to the General Assembly a dividend payment of HRK 29.56 per share which equates to a dividend payout ratio of 100%

**Commenting on the Group's performance for the Financial Year 2007, Ivica Mudrinić, President of the Management Board and CEO, said:** *"2007 was a year of significant progress for the Company. Operationally, the Group has performed well executing on its strategy. The T-Mobile segment has made significant progress in attracting new pre-paid and post-paid customers and ARPU has been protected through a combination of quality and compelling customer offerings. Similarly, T-Com is also performing well. Fixed-line voice services remain competitive with new entrants vying for market share, but we have maintained our leading market position. Our focus on broadband services has yielded significant growth and sustained interest and a take up of our IPTV service - MAXtv.*

*Our successful IPO in October 2007 was a landmark event in the history of our company and we are delighted by the warm reception we received from domestic and international investors. We are maintaining clear strategic focus and are striving to tap into new opportunities in domestic market. We have also demonstrated that although we strive to grow and develop our business we will only consider strategic alliances and acquisitions that create shareholder value.*

*Our strong financial performance and operating cashflow generation leaves us well positioned to continue with high dividend payout rates, proposing to General Assembly a dividend of HRK 29.56 per share, which represents a 100% dividend payout ratio."*

## **Supervisory Board decisions**

The Supervisory Board of HT-Hrvatske telekomunikacije d.d. at its meeting held on 27 February 2008 gave its approval to the audited financial statements. The said financial statements are considered established by both the Management Board and the Supervisory Board and are to be presented to the General Assembly.

The Supervisory Board also approved the Management Board proposal on the utilization of profit, i.e. the part of net profit from the year 2007 in the amount of HRK 2,420,625,094.60 (or HRK 29.56 per share) will be paid out as dividend to the shareholders proportionally to the number of shares owned. The dividend will be paid to all shareholders that are registered as shareholders at the Central Depository Agency on the day of the General assembly session, planned for 21 April 2008. The due date for the dividend payment is May 19, 2008. A part of the net profit in the amount of HRK 26,762.89 is allocated to the retained earnings.

After the distribution of the net profit for the year 2006 the legal reserves and capital reserves reached the 5% level of the share capital as prescribed by the Companies Law. Consequently there is no further obligation for the Company to allocate net profits into the legal or capital reserves.

## About T-Hrvatski Telekom

T-Hrvatski Telekom is the leading provider of telecommunication services in Croatia. Through its two business units, T-Com and T-Mobile, the Group provides fixed telephony, mobile telephony, wholesale, Internet and data services. Iskon Internet d.d., one of the leading alternative telecommunication providers in Croatia, was acquired by and became a member of T-HT Group in 2006. The majority shareholder of T-HT is Deutsche Telekom AG with 51% of T-HT's shares. The Government of the Republic of Croatia holds 9.5% of T-HT's shares (7% of which are earmarked for former and present T-HT Group employees), while the Croatian War Veteran's Fund hold 7% of shares. The remainder, 32.5% is held by institutional and retail investors. The Company completed the listing of its shares on the Zagreb Stock Exchange and global depositary receipts on the London Stock Exchange on 5 October 2007.

## Presentation of information

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

References to "*HT*" or the "*Company*" are to the Company – HT – Hrvatske telekomunikacije d.d.

References to "*T-Mobile*" are to the Company's wholly-owned subsidiary, T-Mobile Croatia d.o.o., which also functions as the Group's mobile operations business unit.

References to "*T-Com*" are to the Group's other business unit which is responsible for the fixed network, wholesale, broadband, data and on-line services.

References to "*Iskon*" are to the Company's wholly-owned subsidiary, Iskon Internet d.d, which forms part of the T-Com business unit.

## Disclaimer

This release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional information concerning important factors that could cause actual results to differ materially is available in the Group's reports which may be found at [www.t.ht.hr](http://www.t.ht.hr)

## Consolidated Income Statement

in HRK million (IFRS; Audited)	Jan-Dec 2007	Jan-Dec 2006	% change 07/06
Mobile telephony	3,964	3,708	6.9%
Fixed telephony	3,219	3,558	-9.5%
Wholesale services	745	665	12.0%
Internet services <sup>1)</sup>	678	490	38.4%
Data services	211	209	1.0%
Miscellaneous	21	6	250.0%
<b>Revenue</b>	<b>8,838</b>	<b>8,636</b>	<b>2.3%</b>
Other income	253	203	24.6%
Operating cost	5,136	4,798	7.0%
Costs of merchandise, consumables and maintenance materials	867	735	18.0%
Costs of services	2,372	2,219	6.9%
Staff costs	1,278	1,243	2.8%
Work performed by the Group and capitalised	-143	-201	-28.9%
Write down of current assets	154	205	-24.9%
Other costs	608	597	1.8%
<b>EBITDA<sup>2)</sup></b>	<b>3,955</b>	<b>4,041</b>	<b>-2.1%</b>
Depreciation and amortization	1,362	1,402	-2.9%
Impairment of non-current assets	74	68	8.8%
<b>EBIT<sup>3)</sup></b>	<b>2,519</b>	<b>2,571</b>	<b>-2.0%</b>
Net financial income	312	215	45.1%
Income from investment in joint ventures	256	1	
<b>Profit before taxes</b>	<b>3,087</b>	<b>2,787</b>	<b>10.8%</b>
Taxation	616	573	7.5%
<b>Net profit</b>	<b>2,471</b>	<b>2,214</b>	<b>11.6%</b>
Exceptional items <sup>4)</sup>	95	19	400.0%
<b>EBITDA before exceptional items</b>	<b>4,050</b>	<b>4,060</b>	<b>-0.2%</b>

<sup>1)</sup> Iskon included in financial statements from 1 June 2006 mainly under this item (the minor part has been booked in the Wholesale services)

<sup>2)</sup> EBITDA - Earnings before interest, taxes, depreciation and amortization. The Group believes that EBITDA is measure commonly used by analysts and investors in the industry in which it operates. EBITDA, as calculated by the Group, may not be comparable to similarly titled measures reported by other companies.

<sup>3)</sup> EBIT - Earnings before interest and taxes but after exceptional items.

<sup>4)</sup> Exceptional items only occurred and shown in T-Com segment

## Consolidated Balance Sheet

in HRK million (IFRS; Audited)	At 31 December 2007	At 31 December 2006	% change 07/06
Intangible assets	1,005	1,126	-10.7%
Property, plant and equipment	6,153	6,244	-1.5%
Goodwill	77	78	-1.1%
Investments	393	113	247.8%
Other long term assets	113	123	-8.1%
<b>Total non-current assets</b>	<b>7,741</b>	<b>7,684</b>	<b>0.7%</b>
Inventories	230	175	31.4%
Trade and other receivables	1,266	1,135	11.5%
Prepayments and accrued income	62	49	26.5%
Available-for-sale investments	93	878	-89.4%
Cash equivalents and time deposits	5,900	5,537	6.6%
<b>Total current assets</b>	<b>7,551</b>	<b>7,774</b>	<b>-2.9%</b>
<b>TOTAL ASSETS</b>	<b>15,292</b>	<b>15,458</b>	<b>-1.1%</b>
Subscribed share capital	8,189	8,189	0.0%
Reserves	411	415	-1.0%
Retained earnings	3,975	4,127	-3.7%
<b>Total issued capital and reserves</b>	<b>12,575</b>	<b>12,731</b>	<b>-1.2%</b>
Provisions	90	97	-7.2%
Employee benefit obligations	201	199	1.0%
Deferred income and other non-current liabilities	163	176	-7.4%
<b>Total non-current liabilities</b>	<b>454</b>	<b>472</b>	<b>-3.8%</b>
Trade and other payables	1,513	1,383	9.4%
Provisions for redundancy	231	428	-46.1%
Accruals, deferred income and short term borrowings	519	444	16.9%
<b>Total current liabilities</b>	<b>2,263</b>	<b>2,255</b>	<b>0.3%</b>
Total liabilities	2,717	2,727	-0.4%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15,292</b>	<b>15,458</b>	<b>-1.1%</b>

## Consolidated Cash Flow Statement

in HRK million (IFRS; Audited)	Jan-Dec 2007	Jan-Dec 2006	% change 07/06
Net profit	2,471	2,214	11.6%
Depreciation and impairment loss of non-current assets	1,436	1,470	-2.3%
Income tax expense	616	573	7.5%
Decrease in inventories	-60	2	
(Increase) / Decrease in receivables and payables	-38	520	-107.3%
Decrease in provisions	-148	-160	-7.5%
Other transaction with impact on operating activities	-548	-199	175.4%
Taxes paid	-574	-545	5.3%
<b>Net cash flows from operating activities</b>	<b>3,155</b>	<b>3,875</b>	<b>-18.6%</b>
Net Purchase/Proceeds of non-current assets	-1,228	-1,413	-13.1%
Net Purchase/Proceeds of financial assets	2,506	-3,435	-173.0%
Interest received	309	161	91.9%
Dividend received	5	1	400.0%
<b>Net cash flows from / (used in) investing activities</b>	<b>1,592</b>	<b>-4,686</b>	<b>-134.0%</b>
Repayment of long-term borrowings and lease liability	-9	-12	-25.0%
Dividends paid	-2,617	-813	221.9%
<b>Net cash flows used in financing activities</b>	<b>-2,626</b>	<b>-825</b>	<b>218.3%</b>
<b>Net decrease in cash and cash equivalents</b>	<b>2,121</b>	<b>-1,636</b>	<b>-229.7%</b>
Effect of F/X rate changes on cash and cash equivalents	-8	1	
Cash and cash equivalents at 1 January	1,254	2,889	-56.6%
Net cash (outflow) / inflow	2,113	-1,635	-229.2%
<b>Cash and cash equivalents at 31 December</b>	<b>3,367</b>	<b>1,254</b>	<b>168.5%</b>

Selected operational data <sup>1)</sup>

## T-MOBILE SEGMENT

Key operational data	Jan-Dec 2007	Jan-Dec 2006	% change A07/06
<b>Subscribers</b>			
No. of pre-paid subscribers	1,700,042	1,603,318	6.0%
No. of post-paid subscribers	684,817	554,715	23.5%
Total T-Mobile subscribers	2,384,859	2,158,033	10.5%
% of post-paid subscribers	29%	26%	3 p.p.
<b>Minutes of use (MOU)</b>			
MOU per average subscriber	127.4	117.2	8.7%
<b>Average revenue per user (ARPU) (HRK)</b>			
Blended ARPU (monthly average for the year in HRK)	131.1	136.0	-3.6%
Blended non-voice ARPU (monthly average for the year in HRK)	25.1	23.3	8.1%
<b>SAC per gross add</b>	273.0	358.1	-23.7%
<b>Churn rate (%)</b>			
Churn rate total	1.28	1.08	0,2 p.p.
Churn rate post-paid	0.73	1.09	-0,4 p.p.
Churn rate pre-paid	1.49	1.07	0,4 p.p.
<b>Penetration</b>	115.0	100.4	14,6 p.p.
<b>Market share of subscribers (%)</b>	46.7	49.1	-2,4 p.p.
<b>Market share by revenue (%) <sup>(2)</sup></b>	52.7	53.6	-1,0 p.p.

## T-COM SEGMENT

Key operational data	Jan-Dec 2007	Jan-Dec 2006	% change A07/06
<b>Fixed telephony</b>			
Total POTS and FGSM mainlines	1,500,757	1,521,437	-1.4%
Total ISDN mainlines	114,056	125,203	-8.9%
<b>Total (POTS+FGSM+ISDN)</b>	<b>1,614,813</b>	<b>1,646,640</b>	<b>-1.9%</b>
Payphones	10,066	12,733	-20.9%
<b>Total mainlines (POTS+FGSM+ ISDN+Payphones)</b>	<b>1,624,879</b>	<b>1,659,373</b>	<b>-2.1%</b>
<b>Total Traffic (thousands of minutes)</b>	<b>4,241,870</b>	<b>4,828,331</b>	<b>-12.1%</b>
To national fixed network	3,519,864	3,979,120	-11.5%
To national mobile network	433,595	533,610	-18.7%
To VAS	75,863	68,424	10.9%
To international networks	147,560	173,368	-14.9%
Remaining traffic <sup>(3)</sup>	64,988	73,810	-12.0%
<b>ARPA Telephony (monthly average for the year in HRK)</b>	<b>159</b>	<b>175</b>	<b>-9.1%</b>

Key operational data	Jan-Dec 2007	Jan-Dec 2006	% change A07/06
<b>Internet services</b>			
<b>Internet access customers</b>			
Number of Internet subscribers	482,867	409,556	17.9%
Dial-up users	746,652	732,574	1.9%
Active dial-up users	137,942	193,808	-28.8%
ADSL mainlines	344,925	215,748	59.9%
IPTV customers	43,734	5,805	
Fixed-line customers	881	799	10.3%
VPN connection points	1,383	877	57.7%
<b>Internet revenue</b>			
Active dial-up users revenue (,000)	117,050	160,613	-27.1%
ADSL mainlines revenue (,000)	396,560	228,758	73.4%
Active dial-up users ARPU (monthly average for the year in HRK)	60	64	-7.2%
ADSL mainlines ARPA (monthly average for the year in HRK)	122	125	-2.6%
<b>Data services</b>			
<b>Number of lines (except where stated otherwise)</b>			
X25 (connection points)	871	1,405	-38.0%
Managed leased lines	303	356	-14.9%
Unmanaged leased lines	2,430	2,863	-15.1%
Frame Relay	2,635	3,130	-15.8%
ATM	17	28	-39.3%
Metro Ethernet (connection points)	893	83	
<b>Total</b>	<b>7,149</b>	<b>7,865</b>	<b>-9.1%</b>
<b>Wholesale services</b>			
<b>Customers</b>			
CPS	236,065	206,665	14.2%
NP (users/number)	145,404	67,527	115.3%
ULL	38,179	709	
<b>Wholesale revenues (HRK millions)</b>	<b>1,167</b>	<b>1,052</b>	<b>10.9%</b>

1) Some key performance indicators ("KPI") in the telecommunication sector, including minutes of usage ("MOU"), average revenue per user ("ARPU"), ARPU composition, churn and the number of customers, may be calculated differently by other companies operating in this sector. Therefore, the Company's KPI's may not be directly comparable to those of its competitors.

2) Market share by Total revenue without national roaming. Source: Telekom Austria Annual report for 2006 and Quarterly reports for the first three quarters of 2007. VIPnet's Total revenue for Q4'07 internally estimated. VIPnet's National roaming revenue internally estimated. Tele2 Total revenue internally estimated. Market shares are based on unconsolidated revenue for T-Mobile (i.e. not net of T-Com revenues).

In 2007 key competitor changed its accounting policy which might influence reliable comparison amongst operators.

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

## Market overview

T-HT has been successful in adapting to the increasingly competitive environment across its business segments and has not only conceded very limited loss of market share but has also maintained its market leading position across all of the segments in which it operates. A key aspect of this success is T-HT Group's ability to offer a superior and comprehensive telecommunications product and service portfolio, providing every customer with a service that best suits their needs, built upon the foundations of a very high quality network.

Market consolidation remained an important market theme in Croatia in 2007. An Austrian investor acquired Croatia's two biggest cable operators in April 2007. This was followed in August 2007 by the acquisition of a local ISP by Croatia's alternative fixed line operator.

T-Mobile is one of three mobile operators in Croatia and in 2007 maintained its position as the leading operator. T-Mobile's market share by revenue amounted to 52.7% as compared with 53.6% in 2006. Increased penetration (which at 31 December 2007 stood at 115%) and growing Minutes of Usage (MoU) have offset keener pricing resulting in overall market growth.

The deregulation of the Croatian telecommunications market has quickly created a competitive environment and there are now ten operators active in the fixed telephony segment. As a consequence of intensified competition, the T-HT Group's market share by revenue in fixed telephony fell from 91% at the end of 2006 to 88% at the end of 2007 (source: Group's internal estimates). Total market revenue from traditional voice services declined as expected due to a combination of lower prices and a fall in voice traffic; itself primarily attributable to fixed-to-mobile substitution and the increased usage of VoIP services.

The internet market has continued to migrate from dial up to broadband connections. In 2007 T-Com continued with strong expansion of broadband access based on ADSL technology reaching 344,925 users. Following its successful launch in September 2006, MAXtv has become in 2007 one of the Group's flagship services, reaching 43,734 customers at the end of 2007.

The Group's competitors also intensified their activities in this area over the same period. In addition to relying on the Group's ULL offering, some operators continued building their own broadband lines to business customers and introduced an ADSL service for residential customers via their own network. In 2007 Iskon, the Company's subsidiary, confirmed its market position as one of the leading alternative broadband operators focusing primarily on residential ULL, advanced broadband users and SME customer segments.

In December 2007, the Croatian Telecommunications Agency approved the annex to Company's standard offer for Internet Service Providers (ISP) regulating terms and conditions for wholesale broadband Internet access to Company's network (bitstream). Bitstream access is available as of 1 February 2008.

In the wholesale arena T-HT Group has established interconnection with both remaining mobile network operators and eight fixed network operators. The alternative operators are building their own networks and competing by offering dark fibre and capacities. The international market in 2007 was characterized by increased competition of domestic alternatives but also by the entrance of several regional players in the Croatian market, who have built their physical points of presence in Zagreb. However, given the fact that the T-HT Group has the largest and most widely spread network in Croatia, the Group has remained by far the largest player in the wholesale market.

## Analysis of consolidated financial statements for the Financial Year 2007

*Note:*

- *Presented consolidated financial statements are audited.*
- *Complete Group's audited financial statements are available on the Company's web site*

### Exchange rate information

	Kuna per Euro		Kuna per U.S. dollar	
	Average	Period-end	Average	Period-end
Year ended 31 December 2006	7.32	7.35	5.84	5.58
Year ended 31 December 2007	7.34	7.32	5.36	4.98

## Consolidated Income Statement

### Revenue

Total consolidated revenue increased by 2.3% to HRK 8,838 million in 2007 ("reporting period") from 8,636 million in 2006. Revenue growth was primarily driven by mobile telephony and Internet services and, to a lesser degree, by wholesale services. Together these three business services accounted for 61.0% of the Group's total revenue in year 2007 and 56.3% of the Group's total revenue for the year earlier. The growth in revenue from mobile telephony, Internet and wholesale services more than offset the expected decline in fixed telephony revenue.

### Operating costs

Total consolidated operating costs in the reporting period increased by 7.0% to HRK 5,136 from HRK 4,798 million in the previous year, mainly as a result of an increase in cost of services, cost of merchandise, consumables and maintenance materials.

### Cost of merchandise, consumables and maintenance materials

The cost of merchandise, consumables and maintenance materials increased by 18.0% to HRK 867 million in 2007 from HRK 735 million in 2006. This increase was mainly due to an increase in the costs of modems and terminal equipment for fixed telephony services such as ADSL and IPTV and costs of mobile merchandise sold through direct and indirect channels.

## **Cost of services**

The cost of services increased by 6.9% to HRK 2,372 million in 2007 from HRK 2,219 million in 2006. This was mainly due to increases in domestic and international connection services, maintenance costs (partly due to a significant increase in our ADSL and ULL customer base), T-Mobile's fees to indirect sales partners which resulted from larger subscriber base, rental costs and one-off IPO costs. This increase has however, been partially offset by a decrease in advertising costs.

## **Staff costs**

Total staff costs before exceptional items related to redundancy costs decreased in 2007 by 2.7% to HRK 1,199 million from HRK 1,232 million in 2006. This is a result of ongoing progress in our planned headcount reduction programme.

In Q4 2007 provisions for redundancy of HRK 79 million were made versus HRK 11 million in 2006. As a consequence, staff costs after exceptional items increased by 2.8% to HRK 1,278 million in 2007 from HRK 1,243 in 2006.

As at 31 December 2007, the Group had 6,724 employees compared to 7,498 employees as at 31 December 2006, representing a decrease of 774 employees.

## **Work performed by the Group and capitalized**

The work performed by company and capitalized decreased by 28.9% to HRK 143 million in 2007 from HRK 201 million in 2006 as a result of , lower capex realisation (lower level of capex activities and lower number of employees creating work performed by company and capitalized) and lower price for capitalized working hour.

## **Write-down of current assets**

The current assets write-down decreased by 24.9% to HRK 154 million in 2007 from HRK 205 million in 2006, mainly due to an improvement in collection activities.

## **Other costs**

Other costs increased by 1.8% to HRK 608 million in 2007 from HRK 597 in 2006. This was mainly due to provisioning for loyalty programs and legal cases.

## **Depreciation and amortization**

Depreciation and amortization decreased by 2.9% to HRK 1,362 million in 2007 from HRK 1,402 million in 2006. This decrease was primarily due to the complete depreciation of certain assets primarily related to switching, transmission and other equipment (IT and vehicles) which occurred in 2006. This decrease was partially offset by higher amortization of software acquired in 2006.

### Exceptional items

In the reporting period the Group's exceptional items totalled HRK 95 million of which HRK 79 million was attributable to redundancy costs:

in HRK million	Jan-Dec 2007	Jan-Dec 2006
Redundancy costs	79	11
IPO related costs	16	-
Costs relating to a warehouse closing project and waste management of inventory	-	8
<b>TOTAL</b>	<b>95</b>	<b>19</b>

*Note:*

*In line with auditor's recommendation, from Q4 2007 the Cost accrual in respect of rights of way over the Duct Infrastructure ("DTI costs") has been reclassified from OPEX to CAPEX.*

### Profitability

in HRK million	Jan-Dec 2007	Jan-Dec 2006	% change 07/06
Revenue	8,838	8,636	2.3%
EBITDA before exceptional items	4,050	4,060	-0.2%
EBITDA	3,955	4,041	-2.1%
EBIT (Operating profit)	2,519	2,571	-2.0%
Net profit	2,471	2,214	11.6%
EBITDA margin before exceptional items	45.8%	47.0%	-1.2 p.p.
EBITDA margin	44.7%	46.8%	-2.0 p.p.
EBIT margin	28.5%	29.8%	-1.3 p.p.
Net profit margin	28.0%	25.6%	2.3 p.p.

### EBITDA

EBITDA before exceptional items decreased by 0.2% to HRK 4,050 million for the year 2007 from HRK 4,060 million for the previous year. EBITDA margin before exceptional items stood at a very healthy 45.8% and EBITDA margin erosion has been limited to a modest 1.2 p.p.

### Operating Profit (EBIT)

Consolidated operating profit decreased by 2.0% to HRK 2,519 million in 2007 from HRK 2,571 in 2006.

### Net Profit

Consolidated net profit increased by 11.6% to HRK 2,471 million in 2007 compared to HRK 2,214 million in 2006. This increase in net profit was primarily due to income from equity accounted investments relating to the Group's investment in HT Mostar d.o.o. This amounts to HRK 256 million and can be broken down as follows: a) one off profits of HRK 188 million relating to the reversal of impairment provisions; b) further one off profit arising from the disposal of shares amounting to HRK 47 million, and c) a profit of HRK 21 million, the majority of which derives from T-HT Group's share in Hrvatske telekomunikacije d.o.o. Mostar's financial performance for 2007.

In addition, higher net profit was also driven by the increase in net financial income (which grew by 45.1%) resulting primarily from higher average cash balances.

### Consolidated Balance Sheet and Cash-flow

The total assets of the Group declined during the year by 1.1% from HRK 15,458 million as of December 31 2006 to HRK 15,292 million as of 31 December 2007. In the same period total issued capital and reserves decreased by 1.2%. The major driver behind both reductions highlighted above was the payment of the dividends in the reporting period in the total amount of HRK 2,617 million.

As at 31 December 2007 cash equivalents and time deposits totalled HRK 5,900 million.

Net cash flow from operating activities in 2007 remains robust at 3,155 million in spite of a decrease of 18.6%, as a result of unfavourable working capital movements.

### CAPEX

in HRK million	Jan-Dec 2007	Jan-Dec 2006	% change 07/06
T-Mobile	374	524	-28.7%
T-Com	875	901	-2.9%
<b>Total Capital Expenditure</b>	<b>1,248</b>	<b>1,425</b>	<b>-12.4%</b>

Capital expenditure decreased by 12.4% to HRK 1,248 million for the year 31 December 2007 from HRK 1,425 million for the year 31 December 2006.

T-Mobile's capital expenditure in 2007, which was focused on building capacity, certain IT projects and 3G networks, decreased by 28.7% to HRK 374 million from HRK 524 million, being affected by changes in the timing of network projects.

In 2007, T-Com's capital expenditure was focused on ADSL capacity, MAXtv, IT support and maintaining existing switch network.

## Analysis of segment results

### Segment information

The Group's results are segmented according to the way the business is managed into the T-Mobile segment and the T-Com segment.

The T-Mobile segment (or T-Mobile Croatia d.o.o., wholly owned subsidiary of the Company) provides mobile telephony which includes mobile wholesale, mobile Internet and mobile data services.

The T-Com segment (which is not a separate legal entity) provides fixed telephony, wholesale services, Internet services and data services. The T-Com segment encompasses HT-Hrvatske telekomunikacije d.d. (the Company) and Iskon Internet d.o.o. (Iskon), the Company's fully owned subsidiary. Iskon is the leading Croatian Internet/alternative telecommunication services provider and was acquired in May 2006.

The sum of the financial results of two segments presented below does not equal Group's financial results because of intersegment eliminations.

### T-Mobile

The following table sets forth selected income statement data for T-Mobile for the year ended 31 December 2007.

#### Income statement

in HRK million	Jan-Dec 2007	%	Jan-Dec 2006	%	% change 07/06
<b>Revenue</b>	<b>4,236</b>	100.0%	<b>4,030</b>	100.0%	<b>5.1%</b>
Other income	138		92		50.0%
Operating costs	2,583		2,450		5.4%
<b>EBITDA</b>	<b>1,791</b>	42.3%	<b>1,672</b>	41.5%	<b>7.1%</b>
Depreciation and amortization	528		508		3.9%
<b>EBIT</b>	<b>1,263</b>	29.8%	<b>1,164</b>	28.9%	<b>8.5%</b>

### Revenue

The following table sets forth a breakdown of mobile telephony revenue for the year ended 31 December 2007.

#### Revenue structure

in HRK million	Jan-Dec 2007	%	Jan-Dec 2006	%	% change 07/06
Revenue from Postpaid services <sup>1)</sup>	2,426	57.3%	2,329	57.8%	4.2%
Revenue from Prepaid services	1,541	36.4%	1,465	36.4%	5.2%
Other mobile revenue	269	6.4%	236	5.9%	14.0%
<b>Revenue</b>	<b>4,236</b>	<b>100.0%</b>	<b>4,030</b>	<b>100.0%</b>	<b>5.1%</b>

<sup>1)</sup> including visitors' revenue

T-Mobile's total revenue increased by 5.1% to HRK 4,236 million in 2007 from HRK 4,030 million in 2006. Revenue growth was mainly a result of increase in postpaid services revenues of 4.2% to HRK 2,426 million. This was primarily due to strong growth in the postpaid subscriber base. Increase in revenue from prepaid services is a result of the increase in our prepaid customer base as well as the stable spending patterns of our prepaid subscribers. The increase in revenue derived from growth in the subscriber base and higher usage traffic was partly offset by a decrease in call prices.

T-Mobile subscriber base has increased from 2.16 million subscribers in 2006 to 2.39 million subscribers in 2007 or by 10.5%. Both prepaid and postpaid subscribers contributed to the growth of subscriber base as a result of targeted offerings. Postpaid share in the total subscriber base has increased by 3.0 p.p. to 29% as a result of both new acquisitions, prepaid to postpaid migrations as well as low churn.

Minutes of Use per average subscriber have increased to 127.4 minutes in 2007 from 117.2 minutes in 2006 as a result of our introduction of new tariffs and options that enable both prepaid and postpaid subscribers to talk more at favourable prices.

As a result of drop in prices and increased penetration through multiple SIM usage and penetrating of lower-end segment, blended ARPU has shown a declining trend over this period. This decrease in ARPU has been offset, in part, by a shift of subscribers from prepaid to postpaid (as the latter typically have a higher ARPU) and the increase in mobile usage. Consequently SAC per gross add has been managed down in order to maintain profitability relative to the gained revenues.

Churn rate in 2007 has increased as a result of higher prepaid churn coming from a strong competition in the low-end prepaid area between two competitors. Postpaid churn, however, has decreased as a result of our introduction of targeted actions and tailor-made postpaid propositions.

## **EBITDA**

In 2007, EBITDA for mobile telephony increased by 7.1% to HRK 1,791 million from HRK 1,672 million in 2006. The increase was due to higher revenue from mobile services and other income accompanied by moderate growth in operating costs. Other income is 50.0% higher than in 2006 as result of HRK 40 million revenue from the return of VAT paid in previous years for prepaid incentives.

## T-Com

The following table provides selected unconsolidated income statement data for T-Com for the year ended 31 December 2007 and 31 December 2006.

### Income statement

in HRK million	Jan-Dec 2007	%	Jan-Dec 2006	%	% change 07/06
<b>Revenue</b>	<b>5,446</b>	<b>100.0%</b>	<b>5,466</b>	<b>100.0%</b>	<b>-0.4%</b>
Other income	194		204		-4.9%
Operating costs	3,476		3,301		5.3%
<b>EBITDA before exceptional items</b>	<b>2,259</b>	<b>41.5%</b>	<b>2,388</b>	<b>43.7%</b>	<b>-5.4%</b>
<i>Exceptional items</i>	<i>95</i>		<i>19</i>		<i>400.0%</i>
<b>EBITDA</b>	<b>2,164</b>	<b>39.7%</b>	<b>2,369</b>	<b>43.3%</b>	<b>-8.7%</b>
Depreciation and amortization	908		962		-5.6%
<b>EBIT</b>	<b>1,256</b>	<b>23.1%</b>	<b>1,407</b>	<b>25.7%</b>	<b>-10.7%</b>

### Revenue

The table below sets forth a breakdown of T-Com's revenue (as described above) for the year ended 31 December 2007 and 31 December 2006.

#### Revenue structure

in HRK million	Jan-Dec 2007	%	Jan-Dec 2006	%	% change 07/06
Fixed telephony	3,221	59.1%	3,560	65.1%	-9.5%
Wholesale services	1,167	21.4%	1,052	19.2%	10.9%
Internet services	680	12.5%	494	9.0%	37.7%
Data services	211	3.9%	209	3.8%	1.0%
Miscellaneous	167	3.1%	151	2.8%	10.6%
<b>Revenue</b>	<b>5,446</b>	<b>100.0%</b>	<b>5,466</b>	<b>100.0%</b>	<b>-0.4%</b>

Total revenue from T-Com decreased by 0.4% to HRK 5,446 million in 2007 from HRK 5,466 million in 2006. The decrease in T-Com's revenue was due primarily to a decrease in fixed telephony traffic caused by fixed to mobile substitution and increased competition.

The decrease has been partially offset by the performance of wholesale services, in particular origination and termination revenue, and a significant increase in revenue from Internet services, particularly ADSL.

### Revenue from Fixed Telephony

Revenue from fixed telephony decreased by 9.5% in 2007 compared with 2006 or, in value terms, decreased from HRK 3,560 million in 2006 to HRK 3,221 million in 2007.

The decrease in revenue from fixed telephony compared to the previous year is primarily due to decrease in fixed telephony traffic caused by fixed to mobile substitution and increased competition resulting in customer migration to other operators (CPS, ULL). The migration to other operators through ULL increased significantly in the latter part of 2007 whilst the number of CPS remained stable from month to month. All of the above together with strong promotional activities resulted in 9.1% ARPA decrease.

Despite these factors the total number of fixed mainlines remained relatively stable at 1,625 thousand (with 2.1% decrease) as a result of T-Com brand's reputation for quality of service, the attractiveness of add-on services like ADSL or IPTV and, intensive residential construction in Croatia.

### **Revenue from wholesale services**

Wholesale revenue increased by 10.9% to HRK 1,167 million in 2007 from HRK 1,052 million in 2006. This growth was primarily driven by continued market liberalisation, the introduction of new services and increased hubbing traffic.

Major drivers of revenue growth on our national market are telecom services provided to licensed operators, revenue from infrastructure services to national operators (ULL, co-location, DTI etc.) is increasing.

In our domestic market growth in the number of active CPS subscribers slowed compared with previous years due to a shift by many operators towards a strategic focus on ULL. The increase in take-up of Number Portability ("NP") is an outcome of considerable ULL activations during the period. At the end of 2007 the total number of active CPS customers reached 236,065 whilst the number of ported numbers stood at 145,404.

At the end of 2007, 38,179 lines were fully unbundled and leased over to other Operators whilst a new Shared Access ("SA") service resulted in the delivery of 200 lines.

Termination of international traffic into the Republic of Croatia and neighbouring countries continues to generate the majority of revenue for our international wholesale business.

Our international market position was improved last year by the implementation of upgrades of existing bilateral border crossings and through the new virtual Point of Presence (PoP) we established in Vienna in May 2007.

### **Revenue from Internet services**

Revenue from Internet services increased by 37.7% to HRK 680 million in 2007 from HRK 494 million in 2006. This increase is due to our success in further growing our ADSL customer base, which increased to 344,925 customers as at 31 December 2007 representing an increase of 59.9% from 31 December 2006. This impressive number of MAXadsl customers was achieved through constant creation of attractive offers on one hand, and by enriching the multimedia Internet content on the other. Iskon's contribution to revenue after consolidation amounted to HRK 70 million in 2007 compared to HRK 39 million in 2006.

ARPU in ADSL declined by 2.6% in 2007 because of our concerted effort to offer strong promotions and keener pricing in order to increase broadband penetration and retain the largest market share in Croatia: both two important foundations for the long term success of our business.

Although the total number of dial-up users is growing, the number of active users is decreasing due to customer migration towards broadband access. The ARPU for dial-up customers has shown 7.2% decrease in comparison to previous year.

As of 31 December 2007, T-Com had 43,734 MAXtv customers.

T-Portal has kept its position as the largest Croatian news portal. With more than thirty columns and online services, T-Portal is primarily intended for Croatian and English-speaking Internet users. In 2007, T-Portal had on average 1.8million visitors per month, making 9.7 million visits, while in 2006 T-Portal had on average 1.8 million visitors per month, making 8.3 million visits.

### **Revenue from data services**

Revenue from data services increased by modest 1.0% to HRK 211 million in 2007 from HRK 209 million in 2006 due, as expected, to the migration of our customers away from traditional data services to lower priced, IP-based services. As an integral part of its long term data strategy, T-Com has focused on migrating customers from traditional data towards new services such as Metro Ethernet and IP VPN, supported by promotional efforts.

### **Miscellaneous revenue**

Miscellaneous revenue primarily consists of revenue from the sale of mobile merchandise. Revenue from the sale of mobile merchandise is generated by T-Com buying mobile merchandise at cost from T-Mobile and selling it through its sales channels. Miscellaneous revenue increased by 10.6% from HRK 151 million in 2006 to HRK 167 million in 2007 primarily as a result of increased revenue from the sale of mobile merchandise in 2007 through T-Com sales channels.

### **Other income**

Other income includes revenue from services provided to T-Mobile (such as fleet, treasury, human resources, warehouses, logistics, IT, real estate), revenue from default interests, revenues from fixed asset rental and revenue from construction work for third parties.

Other income decreased by 4.9% to HRK 194 million for the twelve months ended 31 December 2007 from HRK 204 million for the twelve months ended 31 December 2006. This was primarily due to a decrease in revenue from services provided to T-Mobile.

### **EBITDA**

In 2007, T-Com EBITDA before exceptional items decreased by 5.4% to HRK 2,259 million from HRK 2,388 million in 2006. This decrease is due primarily to the revenue decrease as described above and an increase in operating costs (before depreciation and amortization).

## Group 2008 Outlook:

### Revenue

- Group revenue expected to remain stable at 2007 levels.
  - Decline in fixed-line revenue due to general trends and increased competition will be offset by continued growth of Internet and mobile revenue. Wholesale revenue expected to remain stable.
- Expected strong growth in broadband revenue will be driven by growth of our ADSL customer base to roughly 450,000 customers by end 2008. Strong growth in our MAXtv customer base is also expected to continue.
- Growth in mobile subscribers and data services is expected to result in a moderate mobile revenue growth in 2008. Market trend of faster SIM growth compared to revenue growth resulting in additional decrease of mobile ARPU.

### CAPEX

- We are focused on the development of an access network as a part of our strategy to migrate to a single IP platform. Group CAPEX as a percentage of revenue is, therefore, expected to be slightly higher than 2007.

### EBITDA

- Increasing subscriber acquisition and retention costs in both the fixed-line and mobile segments will keep pressure on the Group's EBITDA margin. Our Cost optimisation programme will continue to mitigate to some extent the decrease expected in EBITDA. Our Headcount optimisation programme will also continue, but not as extensively as in 2007.

### Regional Expansion

- We intend to participate in the privatization process of HT Mostar, which is expected to start during 2008. Currently the Company holds a 39.1% stake in HT Mostar and is already represented on management bodies. We will continue to carefully monitor and evaluate all other expansion opportunities, focused on generating shareholder value.

## Major events / announcement made in period from being listed (5 October 2007.)

29 Oct 2007	T-Mobile Croatia, subsidiary of T- Hrvatski Telekom, announced national roaming agreement with Tele2 Croatia
13 Nov 2007	T-Mobile Croatia, subsidiary of T- Hrvatski Telekom, announced cooperation with Agrokor group and Europapress holding
3 Jan 2008	T-HT announced it will not submit a binding offer for acquisition of Telekom Slovenije

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