Annual Report 2001

Development and globalisation

Hrvatski Telekom

KEY FINANCIAL INDICATORS

Earnings position	Change	2001 HRK millions	2000 HRK millions
Revenue	16.43%	6,788	5,830
Own costs capitalised	-44.15%	167	299
Other income	-2.20%	89	91
Total operating income	**13.25%**	**7,044**	**6,220**
Material costs	17.03%	-2,075	-1,773
Staff costs	-1.37%	-1,224	-1,241
"Depreciation, amortisation and write-down of fixed assets"	-21.20%	-1,208	-1,533
Write-down of fixed assets from appraisal		-1,142	
Write-down of current assets	92.31%	-125	-65
Other costs	43.56%	-646	-450
Total operating costs	**26.83%**	**-6,420**	**-5,062**
Operating profit	**-46.11%**	**624**	**1,158**
Net profit for the year	**-66.30%**	**310**	**920**

Assets and liabilities	Change	2001 HRK millions	2000 HRK millions
Fixed assets	30.56%	10,586	8,108
Current assets	80.28%	3,337	1,851
Prepayments and accrued income	10.00%	22	20
Issued capital and reserves	33.93%	11,365	8,486
Long term liabilities	136.55%	1,029	435
Short term liabilities	46.76%	1,337	911
Accruals and deferred income	45.58%	214	147
Total assets and liabilities	**39.74%**	**13,945**	**9,979**

Financing	Change	2001 HRK millions	2000 HRK millions
Net cash inflow from operating activities	13.13%	3,308	2,924
Net cash outflow from investing activities	52.63%	-2,816	-1,845
Net cash outflow from financing activities	-39.11%	-288	-473

Ratios	2001 HRK millions	2000 HRK millions
Assets turnover	*51,30%	62.70%
Current ratio	2.50	2.03
Financial leverage ratio (total liabilities/subscribed capital)	0.32	0.18
ROE	*2,73%	10.84%
ROA	*2,22%	9.22%
ROS	*4,33%	14.70%

*Data for 2001are significantly affected by the asset appraisal.

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Introduction

Letter from the President of the Management Board

Dear shareholders,

It is with great pleasure that I present the Annual Report of Hrvatski Telekom (HT) for the year 2001, a year in which the results were consistently very good, the restructuring of the Company was successfully continued, and the Company prepared itself for the changes in global telecommunications industry and the total deregulation of the Croatian market. Business successes that deserve a special mention are the 162% increase in the number of ISDN channels and the 51% increase in the number of mobile telephony subscribers.

The Croatian economy improved in the year 2001, with GDP rising by 4.1%. The telecommunications industry achieved even better results. In comparison with the year 2000, Hrvatski Telekom realized a 16% growth in the revenue from core telecommunications business, which eventually amounted to 6.8 billion kuna.

We see that the needs and habits in communications are changing day by day, and so are the trends in specific segments of core telecommunications business. Nevertheless, the revenue of HT grew in all individual segments of its core business in 2001: 8% in fixed network, 44% in mobile communications, and 30% in the Internet and data services.

The decision to express the fair value of certain assets resulted in a large one-time expense for the value reduction of fixed assets. As a consequence, net profit in 2001 was significantly lower and amounted to 310 million kuna. Still, excepting the effect of this one-time accounting operation, we may say that there was an increase both in the EBITDA (earnings before interest, tax, depreciation and amortization) and in the final net profit of the Company. Furthermore, the cash flow from operating activities increased by 13% and amounted to 3.3 billion kuna. After several years of successful business results of the Company, I am glad to say that Hrvatski Telekom has a strong balance sheet, which will be a safe and strong basis for facing very dynamic times and great business challenges in front of us.

We are still a growth-oriented Company. In the year 2001, we were the single biggest investor in the Republic of Croatia. Our long-term investments amounted to 1.7 billion kuna, exceeding the annual depreciation by 48%.

Our fixed network is gradually shifting from its traditional role of voice operator towards the role of the key information structure of the future. As a preparation for this complex role, HT has undertaken several measures with the goal of optimizing and implementing new generation networks. In view of the impending liberalization of the fixed network market, a new tariff system has been introduced. It is modern, transparent and compatible with the global systems. It did not have a material effect on the Company's revenue in 2001. We are very pleased with the reaction of the market to our new products. For example, the number of ISDN channels rose by 162% in 2001. We will continue to invest effort in improving the quality of our current products, introducing new products, and getting prepared for the new period of fixed network development.

The main features of the mobile communications market are strong growth and formidable competition. With our dynamic and proactive approach to the market and our customer care activities, we achieved some significant results: we introduced two dozen new services, we increased the number of subscribers by 51%, we markedly dominated the segment of permanent subscribers, and at the same time successfully prepared ourselves for further growth and introduction of new services.

As the penetration in Croatia is still low, the main goals of the Internet segment are to increase the popularity and usage of the Internet and to create a basis for future value generation in the Company. For this purpose, several activities have been undertaken: reducing the Internet access price and providing the Internet services in all elementary and secondary schools in Croatia (with the donation of more than 1,000 computers to the schools), devising new integrated packages and tariff models for various kinds of customers, and developing the domestic contents of the HThinet portal (especially multimedia). We also made significant improvements in enlarging the total capacity. HThinet is still the uncontested leader (72% of the total number of commercial dial-up customers), and both its customer base and its market share are growing.

Other important business events in 2001 include: early retirement of a part of the workers, employment of new expert staff, and preparations for the outsourcing of non-core activities of the Company (catering, building maintenance, physical and technical protection, cleaning services, vehicle maintenance and technical checkup stations).

We defined a new and more flexible organizational structure of the Company, which was implemented in February 2002. We significantly improved finance management & control systems, and we revalued our fixed assets. We improved the human resource management policies and the segment of corporate communications. The Collective Agreement was successfully negotiated with the unions (and signed in February 2002). The business year 2001 was very dynamic and demanding. We are aware that the future will be even more so, with bigger business challenges, but we will face it with optimism and readiness. We will further strengthen our orientation to the market and customers.

I believe that the Company's business results will continue to be very good in future years. This will be helped by our strategic alignment with and participation in the global group of Deutsche Telekom AG, which has owned a package of 51% of the shares of HT since October 2001.

Finally, let me thank all the customers, business partners and our shareholders for trusting us. I am also thankful to the members of the Management Board and Supervisory Board, as well as all employees of HT, for the effort they invested in our joint success.

Ivica Mudrinić
President of the Management Board of Hrvatski Telekom

HT Management Board

IVICA MUDRINIĆ

President of the Management Board and Chief Executive Officer (CEO)

Born in 1955. Graduated in electrical engineering from University of Toronto in 1978. His first job was in the Product Development Department of Motorola Communications, and in 1985 established his own company, MX Engineering Inc. In 1990 he returned to Croatia and soon became adviser for communications to the President of the Republic. At the end of the following year, became Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 was appointed Minister. From 1994 Ivica Mudrinić served as President of the Telecommunications Council, and from 1996 was President of the Management Board of Hrvatska radiotelevizija (Croatian Radio and Television). From 15 October 1998 was CEO of Hrvatska pošta i telekomunikacije (Posts and Telecommunications), and since the separation of Posts and Telecommunications on 1 January 1999 he has been President of the HT Management Board.

When appointed President of the HT Management Board, Ivica Mudrinić outlined his business policy – the development of the telecommunications infrastructure, with the convergence of voice, video and text services, and particularly Internet services and video transfer methods. Therefore, it is not surprising that advanced HT services such as the introduction of WAP (among the first in Europe) are for Mudrinić proof of the company's timely reaction to the challenges of the new technological revolution, but also a way of positioning the company alongside leading European and world operators.

KARIM JADAVJEE KHOJA

Member of the Management Board and Chief Operating Officer Mobile

Born in 1958. Graduated in 1981 and was awarded the degree of M.Sc. and DIC in Management from the Imperial College of Science, Technology and Medicine, London. In 1999 completed an AMP (Advanced Management Program) at Harvard Business School. Has spent most of his professional career working in the field of telecommunications, and in October 2002 was appointed Member of the HT Management Board and Chief Operating Officer Mobile. His main task is the development and functioning of mobile networks, including product marketing, communications, sales, systems planning and development, and the development of services.

WOLFGANG LISTER

Member of the Management Board and Chief Operating Officer Fixed

Born in 1952. Was awarded an MBA from GSBA in Zürich in 1999. Has spent most of his professional career with Deutsche Telekom, most recently in the capacity of Executive Vice-President for Marketing and Sales in the Augsburg/Kempten branch. In November 2001 he was appointed Member of the Management Board and Chief Executive Director of the Fixed Network, directly responsible for its operation, development and functioning, including product management and product development, marketing, sales, telesales and billing, as well as the supervision, management and maintenance of the network.

INGO RICHTER

Member of the Management Board and Chief Financial Officer (CFO)

Born in 1957, and graduated in economics in 1985 from the Technical University in Berlin. This was an interdisciplinary study combining business management and chemical engineering. Served as auditor and senior auditor in a number of German and American companies such as Enka AG Wuppertal, Akzo America Inc. in New York, Akzo Faser AG Wuppertal, etc. From 1992, worked in Vaillant GmbH as Auditing Director, and from 1995 took the same position in Deutsche Telekom in the company headquarters in Bonn, and from 1998 was Director of Finance of ISLACOM in the Philippines. He has been with HT since March 1st 1999.

EUGEN SCHULZ

Member of the Management Board and Chief Services Officer (CSO)

Born in 1953. Graduated in mathematics and economics at the Albertus - Magnus University in Cologne. Gained wide experience and expertise in people, process and project management at managerial level in different companies such as Dresdner Bank AG, KPMG Peat Marwick, DeTe Mobilnet GmbH. Has successfully designed, developed and implemented IT strategies, architecture & processes, and has also proficiently handled customer care, billing, product development and quality improvement activities. In October 2001 was appointed Member of the Management Board and Chief Services Officer of HT, responsible for internal corporate services including IT, Customer Care, Procurement, Real Estate Management and General Affairs.

Report on the Performed Supervision of Managing of Business Operations of the Company in the Year 2001

Pursuant to Article 263 of the Companies Law and Article 31 of the Articles of Association of HT - Hrvatske telekomunikacije d.d., the Supervisory Board of the company HT - Hrvatske telekomunikacije d.d. Zagreb, Jurišićeva 13, (hereinafter: Company), comprised of Mr. Hans Albert Aukes, President of the SB, Mrs. Ana Hrastović, Deputy President of the SB, Mr. Milan Stojanović, Mr. Ivan Milić, Mr. Wolfgang Breuer, Dr. Martin Walter, Mr. Michael Günther, and Mr. Herbert Müller, members of the SB, submits to the General Assembly the following

REPORT
on the Performed Supervision of Managing of Business Operations of the Company in the Year 2001

Since 01 January 1999, HT - Hrvatske Telekomunikacije d.d. have been operating as a separate joint stock company, the shares of which have been in the mixed ownership of the Republic of Croatia, 65%, and Deutsche Telekom AG, 35%, since 5 October 1999.

On 25 October 2001 Deutsche Telekom purchased a further 16% stake in HT d.d. and thus become the majority shareholders with a 51% ownership stake.

By closing of the transaction, management structure of HT d.d. was changed.

New Supervisory Board is constituted and Deutsche Telekom is now represented in the Supervisory Board with five members, the Republic of Croatia with three, and one member still needs to be appointed by the Workers Council of HT d.d.

Management Board of the Company consists of five to seven members. On its 1st constitutional session, held on 24 October 2001 Supervisory Board dismissed four Management Board Members and appointed the three new Management Board Members. It was decided also that until the appointment of the Member of the Management Board and Chief Human Resources Officer and the Member of the Management Board and Chief Operating Officer On-line, the Management Board will have five Members and the activities falling within the scope of the Management Board Member and Chief Human Resources Officer will be performed by the President of the Management Board and Chief Executive Officer, while the activities falling within the scope of the Management Board Member and Chief Operating Officer On-line will be performed by the Management Board Member and Chief Operating Officer Fixed.

On its 1st constituional session, Supervisory Board elected the Chairman and Deputy Chairman of the Supervisory Bord and adopted the By-Laws on the Work of the Supervisory Bord and the By-Laws on the Work of the Management Bord. Decision on the Basic Management Organizational Structure of HT d.d., pursuant to the adopted By-laws is passed.

During 2001, the composition of the Supervisory Board of the Company was changed on the following way:

By the Decision of the Government of the Republic of Croatia dated 15 March 2001, Mr. Ivan Mijatović was relieved from duty of being a Member of the Supervisory Board of HT d.d. and Mr. Slavko Linić was appointed to be a Member of the Supervisory Board of HT d.d. Mr. Slavko Linić was also elected to be the President of the Supervisory Board at the 7th session of the Supervisory Board, which was held on 6 April 2001.

By the Decision of the Government of the Republic of Croatia of 12 April 2001, Mr. Ivica Mišetić was relieved from duty of being a Supervisory Board Member and Mr. Željko Tabaković was appointed to be a Member of the Supervisory Board.

By the decision of the General Assembly dated 24 October 2001, whereby the following Members of the Supervisory Board were relieved from duty: Mr. Hans Albert Aukes, Mr. Slavko Linić, Mrs. Erika Kašpar, Mr. Fridbert Gerlach, Mr. Željko Tabaković, Dr. Joachim Peckert, Mr. Georg Poelzl, Prof. dr. Mato Crkvenac and Mr. Goranko Fižulić.

Eight Supervisory Board Members were appointed to the Supervisory Board by the decision of the General Assembly dated 24 October 2001 as it is stated in preamble to this report.

Five sessions of the Supervisory Board were held in the year 2001 (including the 1st constitutional session of the SB) and the Supervisory Board, in accordance with provisions of Article 263 of the Companies Law, Article 18 of the Articles of Association of the Company as well as Article 2 of the By-laws on the Work of the Supervisory Board of the Company, performed supervision of the managing of the business affairs of the Company and performed other activities in accordance with the law, Articles of Association and By-laws on the Work of the Supervisory Board of the Company.

In accordance with the provisions of Article 4 of the By-laws on the Work of the Supervisory Board, the Supervisory Board adopted decisions out of sessions by giving a written vote via facsimile, in one occasion - proposal of the decision on dismissal and election of Supervisory Board Members forwarded to the General Assembly (24th October 2001).

In accordance with the provisions of the Articles of Association, the Supervisory Board established the Financial and Economic Committee compiled of three Supervisory Board members (Mr. Goranko Fižulić, Mr. Joachim Peckert and Mrs. Erika Kašpar) with purposes of preparing the recommendation to the Supervisory Board relating to the adoption of the Annual Report for the year 2000, relating to the approach to the tarrif rebalancing and implementation of the results of Asset Apraisal as of 1st January 2001. The aforementioned Committee held two sessions and gave the positive recommendation to the Supervisory Board with regard to the Management Board proposals relating to the aforementioned subjects. Supervisory Board gave a consent to the Management Board to record the results of the Asset Appraisal as of 1st January 2001 as well as to the related Amendments to the Accounting policies.

In accordance with the provision of the Articles of Association, the Supervisory Board gave the consent to the Management Board with regard to terminate the provisioning of services of HERMES BIP system, to suggested approach for the restructuring of the non core business of the company and to swap the finally harmonized, due and unpaid receivables of HT d.d. against Uljanik d.d. Pula.

The Supervisory Board supported the Management Board in its efforts to protect the HT interests in BiH while limiting the liability and capital expenditure in this market. The Supervisory Board gave the consent to the Management Board for submission of a bid for a third license in Bosnia and Herzegovina.

The Supervisory Board were not agreed with the Management Board proposal for the acquisition of IT company Multilink d.d. with recommendation to develop a contractual business cooperation. Supervisory Board

Supervisory Board of Hrvatski Telekom

gave the consent to the Management Board on selling the shares of Zagrebačka banka owned by HT d.d. as well as for the restructuring its equity portfolio by selling of its non-core equity holdings.

The Supervisory Board gave the consent to the transaction documentation to be entered into among Republic of Croatia, Deutsche Telecom and HT and to the respective Amendments to the Consession Agreements in the Fixed Network and HT's Mobile Network Systems as well as to the Amendments to the Articles of Association.

In accordance with the provisions of the Articles of Association of the Company, the Management Board submitted to the Supervisory Board annual financial reports and annual report together with the report on the performed audit in the legally prescribed deadline, as well as the proposal of the decision on the utilization of profit that the Company realized during the preceding business year.

The Supervisory Board hereby confirms that the Company operated in the year 2001 in accordance with the law, Company regulations and decisions of the General Assembly and that the annual financial reports were made in accordance with the status in the business books of the Company and that they show a true status of assets and business operations of the Company, having respected the opinion of the auditors.

The Supervisory Board is of the opinion that the proposal of the Management Board on the utilization of profit, which was realized by HT - Hrvatske telekomunikacije d.d. in the business year 2001, corresponds to the results of business operations, that it is in the function of the business plan for the current year, that it protects the interests of the shareholders and that it is in compliance with positive regulations of the Republic of Croatia.

The Management Board of the Company regularly reported to the Supervisory Board on the business operations of the Company, on the status of assets and liabilities, on income and on organizational and other changes in connection with the management of the Company.

The Supervisory Board has analyzed the realization of the planned results and the implementation of the basic goals of the business policy of the Company for the year 2001.

By analysis of the reports of the Management Board of the Company and by monitoring the trend of financial indicators in the Company, it has been evaluated that the planned parameters have been realized in the business operations and that the business operations of the Company have been successful.

Except for the financial results for the year 2001, the Supervisory Board has reviewed and agreed to the business policy of the Company for 2002.

The Supervisory Board agreed with the proposed Annual Business Plan for the year 2002 and to the Three Years Strategic Plan of the Company for the period of 2002 - 2005, expressing that planning exercises were made pursuant to the old organizational structure and accordingly forecast and expectations of the Annual Business Plan for 2002 shall be revised in year 2002.

The Supervisory Board is working with the Management Board on the preparation of necessary guidelines for the elaboration of the reviewing of the plan's documents, whereby market impacts and competition on the market on which the Company operates in individual segments of activities and products (mobile telephony, Internet) are taken into account, as well as key customer trends, regulatory changes, corporative strategy and key transformation initiatives, potentials of the telecom market in Bosnia and Herzegovina, human resources management, planned income, expenditures, capex, implementation of the new Organization Regulation, expected technological changes (next generation net-works, GPRS, UMTS) in the next couple of years and the liberalization of the telecommunications market in Croatia, including the impacts of the WTO regulation. Through the business year, the Company has also started preparations for the IPO.

Further to afore-mentioned, the Supervisory Board proposes to the General Assembly to accept the Report on the Performed Supervision of the Managing of the Business Operations of the Company in the year 2001.

President of the Supervisory Board
Hans Albert Aukes

Number: NO-4-13493-9/2002

Supervisory Board of Hrvatski Telekom on 31 December 2001

Hans-Albert Aukes
President

Ana Hrastović,
Deputy President

Wolfgang Breuer
Member

Michael Günther
Member

Ivan Milić
Member

Herbert Müller
Member

Milan Stojanović
Member

Martin Walter
Member

Workers' representative - introduced on 24 October 2001, but has not yet been appointed by the workers' council.

HT u 2001.

Management's Discussion and Analysis of Financial Performance

The following discussion should be read in conjunction with the Audited Financial Statements and the Notes to the Financial Statement.

The overall business results of Hrvatski Telekom in 2001 were positive, but were heavily influenced by the impacts of the asset appraisal process described later in this text. Although the key financial performance indicators declined in comparison to 2000, it must be stressed that these indicators may be assessed as satisfactory if the impacts of the asset appraisal are excluded.

Total Operating Income / Revenue / Revenue by business segment

HT's total operating income amounted to HRK 7,044 million in 2001. This represents an increase of 13.3% compared with the year 2000.

HT's revenues grew by 16.4% over the previous year, reaching HRK 6,788 million in 2001. This growth was primarily due to an increase of 44.0% in revenues from mobile network services, a 29.8% rise in revenues from Internet and data services, as well as an 8.3% growth in fixed telephone revenues. The increase from mobile network services and on-line services reflects HT's strategy of maintaining its leading market position and strong focus on its customer base.

Fixed telephone network

In 2001 revenue from HT's fixed telephone network increased by 8.3% to HRK 4,717 million from HRK 4,355 million in 2000. Revenue growth resulted from faster modernisation of technology and from strong efforts to provide better customer service (HTisdn package, a new approach to customers, new sales channels, the completion of "last mile" through wireless - fixed GSM technology). The tariff rebalancing of August 2001 did not lead to a significant increase in the overall prices of services. While the price of a local call has increased, the price of domestic long-distance calls has fallen. A single monthly rental fee for residential subscribers and a single national tariff have been introduced. Tariff rebalancing has laid the conditions for long-term developments of the national telecommunication infrastructure and has created a good starting position prior to market liberalisation.

Mobile networks

The revenue from mobile networks increased by 44.0% to HRK 1,673 million in 2001 from HRK 1,162 million in 2000. This impressive growth in revenue was achieved by stronger customer orientation which was rewarded by an increased number of customers. HT's objectives of retaining the loyalty of its customers led to the introduction of new services (VPN, SMSinfo, SMSstyle, +club, Partner Card). The Company's customer care was further reinforced by the setting up of HT's first Customer Care Centre. Revenue growth was also supported by improvements in the quality level and territory coverage of the GSM network (capacity extension and upgrading of technical platforms).

Internet and Data services

Revenue from Internet and data services increased by 29.8% to HRK 353 million in 2001 from HRK 272 million in 2000. This significant increase of revenue was largely due to the introduction of a wide range of services (Family Account, HThinet produal service, new HThinet web hosting services, domain registration, audio and video streaming service, server renting service, primary DNS service, Quick Call, AltaVista search engine, auto replay message and VPN - I service) as well as to the network upgrade (new backbone routers, additional access servers and international capacities). These improvements have led to a significant increase in the number of HT Internet and data customers.

Total operating costs

Total operating costs rose by 26.8% to HRK 6,420 million. The write-down of fixed assets from the process of asset appraisal is the most significant contributor to this increase in costs. Costs of materials, consumables and merchandise grew by 13.1%, driven mostly by increased purchases of handsets, resulting from higher demand for mobile services and greater mobile market penetration. An increase of 18.6% in other material costs and costs of services was caused by rising interconnection costs as a result of higher overall mobile penetration and traffic.

Depreciation, amortisation and write-down of fixed assets decreased by 21.2% in 2001 compared with 2000. This decrease is the result of a change in accounting policy, in which the normal useful life of assets was revised. This change in accounting policy has resulted in a more appropriate presentation of the fair market value of the company's assets.

The increase in other costs is the result of increased provisions for charges and risks, increased costs associated with business process improvement - consulting fees (SAP R/3, ITB2 and others) and investments in customer care programmes.

Non-operating income/expense

HT's financial income has grown significantly and has outstripped total financial expenses. Due to its improved cash balances, significant growth from interest earnings was realised. Provisions against the carrying values of associated companies in Bosnia and Hercegovina diminished the positive effects of increased financial income achieved in 2001.

Taxation

Current tax costs increased by 96.2% when compared to current tax for the year 2000. The difference between current tax expenses of HRK 359 million and income tax expenses of HRK 203 million represents the deferred tax benefit. This deferred tax benefit of HRK 156 million relates to the release of part of the deferred tax liability recognised as a result of the revaluation of property, plant and equipment, and to that part of the write-down of property, plant and equipment that will be tax deductible in future periods.

Profitability

Net profit for the year 2001 totalled HRK 310 million. The decrease shown when this result is compared to the net profit for 2000 is due to the growth of total operating costs - primarily caused by the cost of the write-down of fixed assets from appraisal amounting to HRK 1.142 million. This significant increase in assets and issued capital and reserves on one hand, and the increase in costs due to write-downs on the other hand, caused significant changes in the profit & loss account. Heavily influenced by the temporary impacts of the asset appraisal, EBIT, net profit, as well as related key financial performance indicators were lower than expected. However, if the impacts of asset appraisal are excluded, the company's performance would be roughly in line with last year's results and thus could be judged as satisfactory.

Asset Appraisal and its effects on HT's financial statements

Since HT's inception, all its audited financial statements have contained several qualifications - limitations of scope raised by the auditors. The audited financial statements for the year 2001 and contained in this report are the first audited financial statements in HT's history that do

not contain limitations of scope or any other specific qualifications by the auditor.

In order to clean up its balance sheet, HT has taken a series of steps. A professional international appraiser was engaged by HT for the purpose of establishing an independent valuation of HT's property, plant and equipment. In line with the findings, HT's financial statements for 2001 no longer reflect the historical cost of property, plant and equipment, but now show the appraised values. The newly adopted depreciation rates for property, plant and equipment reflect the useful economic lives of the underlying assets in line with IAS requirements, thus removing another qualification.

HT has made additional provisions against its investments in Bosnia and Hercegovina, and has completed additional legal procedures that are providing solid support for legal title to land and buildings transferred from HPT, thus removing two further qualifications raised by the auditors in previous periods.

All the efforts undertaken have helped make the Company more transparent and better suited to the standards expected from international capital markets and from its multinational parent company. These efforts will ease, enhance and further facilitate the next phase of the company's privatisation.

The asset appraisal has resulted in increased asset value, but also in lower net profit for the year. The benefits of the asset appraisal mean that the established prerequisites are in place for the proper monitoring of the status and development of assets and for segment reporting by business units. Entire asset classification is now modelled in accordance with IAS and Deutsche Telekom AG. The calculation of depreciation has been improved and a single integrated database of approximately 180,000 asset/line items has been created and implemented into SAP.

The write-up of assets resulting from revaluation amounts to HRK 3,275 million, and is shown in the equity and liabilities portion of the balance sheet as an increase in revaluation of property, plant and equipment (reduced by deferred tax liability and the release of revaluation reserves to retained earnings).

The write-down of assets resulting from revaluation amounts to HRK 1,142 million and is shown in HT's income statement as the write-down of fixed assets from appraisal, affecting the company's operating profit and net profit for the year. The amount of the write-off of assets resulting from the asset appraisal, and increased depreciation arising from increased asset value are not fully recognised as tax deductible in the first year, thereby significantly increasing the current tax for the year 2001.

HT's financial statements and the results of operations for the year ending December 31st 2001 have therefore to be viewed in the light of the combined effects of the asset appraisal performed and its impact on HT's overall results.

Balance Sheet

Assets
HT's total assets amounted to HRK 13,945 million at the end of 2001 compared with HRK 9,979 million in 2000. This increase in the value of total assets is primarily due to the asset appraisal process, and is reflected in the increased value of property, plant and equipment.

Current assets
The value of total current assets reached HRK 3,337 million from HRK 1,851 million in 2000. The increase in total current assets resulted primarily from increased time deposits, increased investments and improved cash balances.

Equity and Liabilities
The value of total issued capital and reserves increased to HRK 11,365 million in 2001 from HRK 8,486 million in 2000, mainly due to increases in the revaluation reserves in the amount of HRK 2,313 million resulting from the asset appraisal process. The line item "other reserves" contained in the balance sheet refers to adjustments made to the assets and liabilities transferred from HPT as of January 1st 1999 to reflect certain assets and liabilities that were not adequately incorporated within the net assets transferred as of January 1st 1999.

Long term liabilities
Total long term liabilities increased to HRK 1,029 million in December 2001 from HRK 435 million in 2000, primarily due to the emergence of the deferred tax liability in the amount of HRK 578 million. The company has also established provisions of HRK 52 million for a number of legal actions and claims that will probably be asserted in the future against HT.

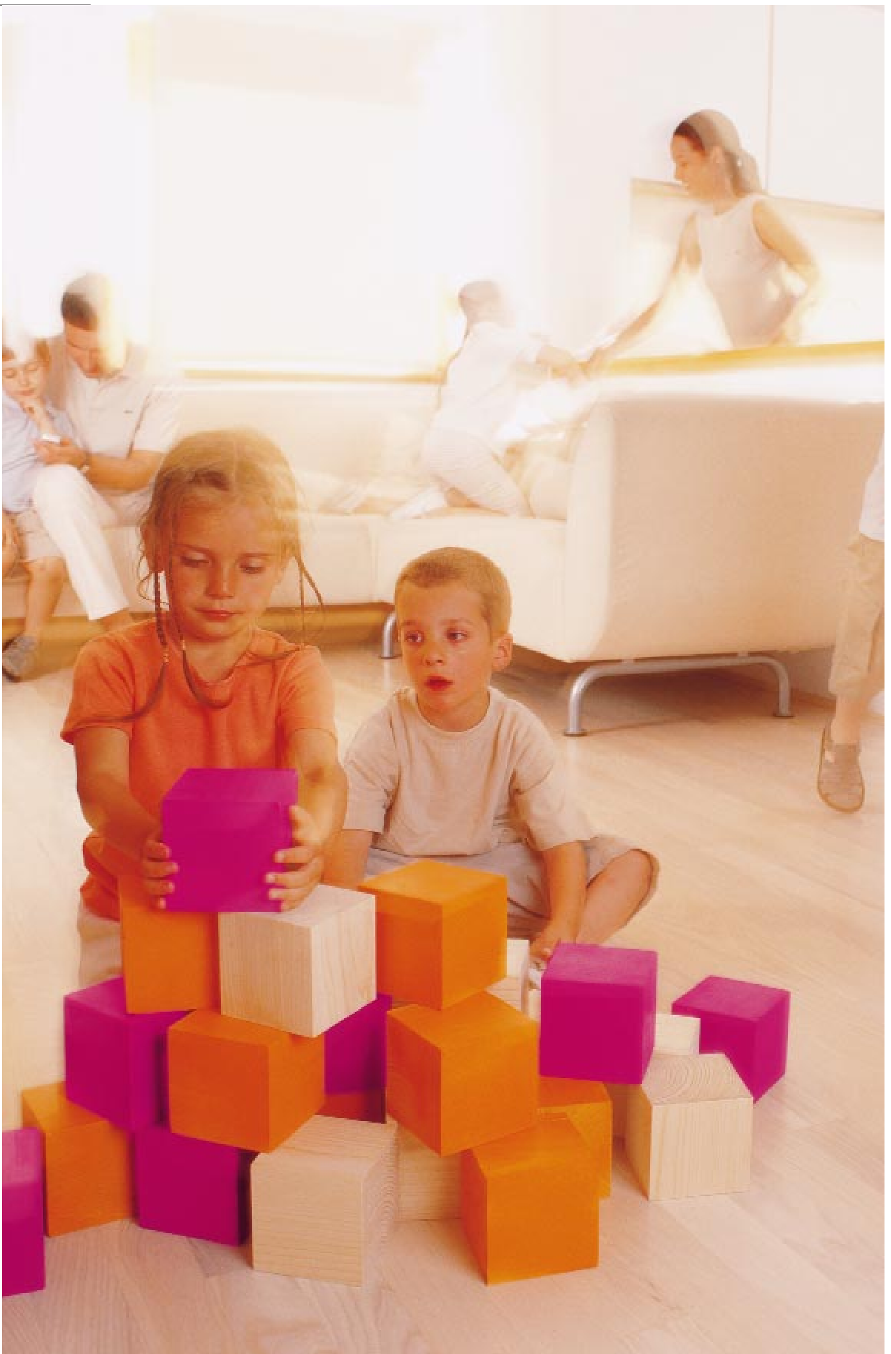
Current liabilities
Current liabilities have increased mainly due to increases in taxes payable, increases in accrued liabilities, and increases in supplier loans.

Cash Flow
Strong cash flow generated from ordinary activities as well as an active policy of cash management has increased the year end cash balances and has enabled an increase in investment activities that are visible in the cash flow statement. Strong cash balances have allowed active measures to be undertaken to provide hedging and risk reduction instruments for part of the forecast future foreign currency indexed cash outflows. Cash outflows for the purchase of property, plant and equipment amounted to HRK 1,691 million.

Privatisation strategy

Organisation for a new age

With the introduction of a new organisation structure, HT has prepared itself for the forthcoming market deregulation and for successful operation in a fully competitive environment.



Privatisation strategy

On 17 October 2001, the Government of the Republic of Croatia and Deutsche Telekom AG signed an agreement on the sale of 16% of HT- Hrvatske telekomunikacije d.d. shares owned by the Republic of Croatia to Deutsche Telekom. On the basis of this agreement, the transfer of this additional amount of 16% of HT shares was executed on 25 October 2001, which made Deutsche Telekom AG the owner of 51% of the total shares.

This transaction followed the previous acquisition of 35% of HT shares by Deutsche Telekom on 5 October 1999.

In this way, HT became the first company from the group of former public companies to be privatised. By continuing its strategic privatisation, HT has become an integral part of the DT Group, the leading international group in the telecommunications industry.

The remaining 49% of HT shares are owned by the Republic of Croatia. The Law on the Privatisation of Hrvatske Telekomunikacije d.d. (Official Gazette No.65/99) and the Law on the Amendments and Modifications of the Law on the Privatisation of Hrvatske Telekomunikacije d.d. (Official Gazette 68/01) specify a further procedure of privatisation of HT, within which, among other things, the Government of the Republic of Croatia will offer at least 20% of HT shares in the form of a public offering.

The Law on the Amendments and Modifications of the Law on the Privatisation of Hrvatske telekomunikacije d.d. (Official Journal 68/2001) also specifies a transitional period until 31 December 2004, which starts after the termination of the exclusive rights of HT. During this transitional period HT will not be obliged to give other operators and service providers unbundled access to its local loop, or to provide number portability and carrier pre-selection services.

Organisation for a new age

By following up on strategic privatisation, the preparations for the introduction of a new organisational structure were completed in 2001 with the following objectives:

- **The creation of added value**
  - alignment with the "four pillars" of the DT Group to maximise operational synergies
  - the building of a more efficient and flexible organisation which is increasingly user focused and process driven
- **Adjustments to regulators' demands**
  - transparency of costs
  - separation of accounting
  - prohibition of cross-subsidising
- **Achievement**
  - of economies of scale
  - of economies of synergies

The basic assumption for the new organisational structure of HT was the creation of conditions for efficient business operations with the aim of better market positioning.

The new organisational structure establishes two types of units: corporate units and business units.

The corporate units comprise: CEO Corporate Unit, Financial Corporate Unit, Corporate Services Unit, and Human Resources Corporate Unit.

The corporate units have the function of integrating the business and management of the Company, with the **primary value-generating and value securing functions**.

The business units consist of: Business Unit Fixed, Business Unit Mobile, and Business Unit On-line.

The business units have the function of independent management up to a certain level, and have **direct market responsibility** for a particular business area.

The new organisational structure presents a platform for the implementation of the strategy and goals of HT in the coming period (preparation for deregulation and readiness to conduct business in a competitive environment) where focus on the user is the key driving force of all processes. The implementation of the new organisation is also a stimulus for promoting other components of organisational architecture.

Full range of telecommunication services

Hrvatski Telekom is the only company to provide the entire range of telecommunications services in Croatia. In 2001, HT provided the following services to resident and business users in Croatia:

Fixed line services include local, national long-distance and international telecommunications services, as well as value-added services, public telephones, ISDN lines, ADSL lines and the sales of additional equipment. The fixed network services are represented in the marketplace through the HTtel and HTisdn brands.

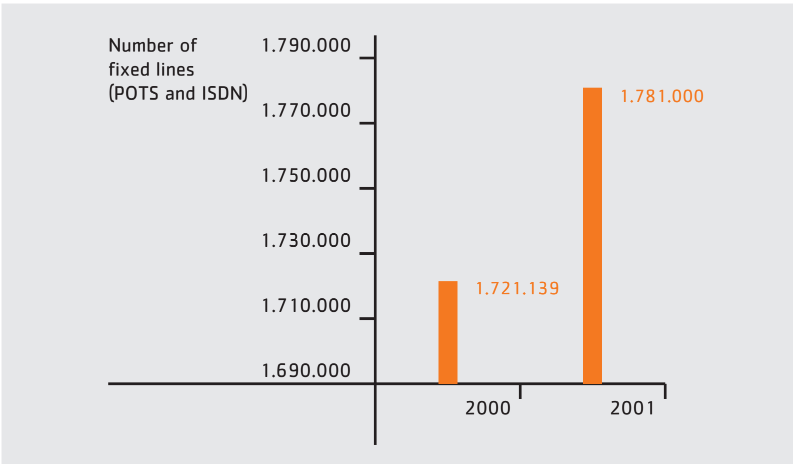
Include two mobile telephone networks: analogue, NMT 450i (HTmobitel brand), and GSM 900 (HTcronet post-paid service, and Simpa pre-paid service).

Includes access to the Internet, web-content services, leased lines for business users and virtual ISP services. HT is represented on the Internet market through the HThinet brand.

Includes data-transfer services through X.25, Frame Relay, TDM and ATM technologies, as well as unmanaged leased lines and telex services.

Fixed network

Major achievements in 2001:
- introduction of a new tariff system
- significant growth in ISDN users
- further optimisation of the network and introduction of a new-generation network



The company's core activity focuses on the fixed network services which provide a nationwide infrustructure for the overall telecommunications traffic in Croatia to serve residential and corporate users.

In 2001, a number of initiatives were undertaken to adjust the fixed telephone network to the needs of consumers, to prepare for deregulation, and to position the company for a new period in the development of the next generation of fixed networks.

The key elements of fixed network operations in 2001 included:
- the introduction of a new tariff system
- the strong growth of ISDN users
- further optimisation of the network and the introduction of a new-generation network

A new tariff system

With the introduction of the new tariff system in August 2001, the key preconditions were set for the full deregulation of the Croatian market of telecommunications.

The new tariff system introduced the following changes:
- a time tariff system replacing the impulse system
- a single national tariff instead of two tariffs - local and long-distance
- a significant reduction in the average price of international calls
- a free itemised billing statement

The new system of tariffs has brought fundamental changes to the domestic telecommunications market. By abolishing the cross-subsidising of services, the preconditions have been set for the deregulation of the market, while the introduction of a single national tariff has ensured equal developmental conditions for all the regions of Croatia. The lowering of the prices of international calls has helped Croatia integrate more speedily with the rest of the world, and has significantly reduced the operating costs of businesses, particularly those dealing with exports, which will in turn directly stimulate economic development. Finally, the introduction of a transparent time tariff system in place of the archaic impulse system and the provision of a free itemised billing statement have given Croatian users for the first time the possibility to control their expenses.

Tariff rebalancing has also led to the introduction of new and very reasonable Internet access fees through which HT can make another contribution to the development of the Internet in Croatia.

Strong growth of ISDN users

Due to the expansion of mobile telephony and the accompanying change in telephone culture, the fixed network is increasingly changing its traditional voice-transfer role. Therefore, the future of the fixed network will be driven by its need to reposition itself from being a basic information infrastructure into being a wide-band data transfer system.
This trend was particularly felt in HT in 2001 when a significant growth in HTisdn service users was recorded. The number of ISDN channels by the end of the year reached 102.721 compared with 39.229 at the end of 2000, representing a 162% increase.

Sales were particularly stimulated by the introduction of integrated HTisdn packages, which include service access and terminal equipment. Consequently, it takes just one simple step for consumers to be able to use all the advantages of ISDN technology.

Further optimisation and introduction of new generation networks

Together with the repositioning of the fixed network as a core information infrastructure, the optimisation of the existing network and the introduction of new generation networks have continued. Thus, a DSL pilot project was completed in 2001, and preparations were made for the commercial introduction of the DSL service that allows wide-band access to the Internet, several dozen times faster than at present.
Further initiatives to broaden the transfer capacity (and light-conductor cables) in HT's main network led to the drawing up of a DWDM concept of trunk and town networks. A pilot project was initiated which included the installation and testing of pilot equipment. The new DWDM technology has large transmission capacities on the existing light-conductor cables.
To assemble and update documentation on the networks, as well as all the data necessary for the everyday functioning of the system in all TC centres, a project has begun aimed at building an integral information system for managing the network infrastructure. The system will contain a database of all the elements of the network, a special data subsystem, a knowledge base and an interface with other systems. Simultaneously with the construction of the system, data are already being collected and compiled.

Radical changes driven by technological development and user demands lie ahead of telecommuni-cations networks. An NGN project of network optimisation has been initiated to examine and assess the sustainability of the next generation of technologies in access and trunk networks, as well as to consider external issues, including users, technology, market trends and the economy, and internal issues which include HT's inherited network and a strategy focused both on the product and on the user.

The digitalisation of the fixed telephone network continued in 2001, and reached a level of 98% at the end of the year.

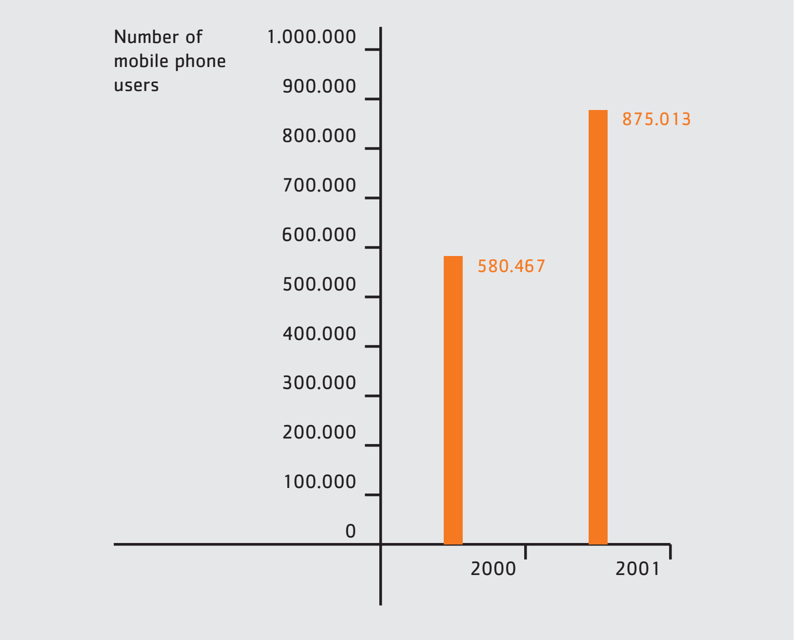
Miscellaneous

The total number of users of the fixed telephone network on 31 December 2001 amounted to 1,781,000, compared with 1,721,139 at the end of 2000, which represents an increase of 59,861, or 3.5%. This growth is in line with the transition period of fixed network development, whose role in voice-transfer is rapidly changing, while its new role as an information network is just beginning.

In addition, it is necessary to mention the significant efforts made to shorten the waiting time to obtain a telephone connection. In these terms, in 2001, the final part of the access network to the user began to be developed through wireless fixed GSM technology. At the end of the year, 3,359 users were connected in this way.

Mobile communications

Major achievements in 2001:
- strong growth and consolidation of position as market leader
- dynamic market performance
- increase of technical capacity



In 2001 the most dynamic area of business of HT was in the field of mobile communications, which registered exceptional results, both in market performance and in training for future development.

Key elements of business in the field of mobile communications were:
- strong growth and consolidation of position as market leader
- dynamic market performance
- increase of technical capacity

Strong growth
In the field of mobile communications in 2001, HT registered as many as 431,781 new users, and with the HTcronet, HTsimpa and HTmobitel brands, the total number of users at 31 December 2001 had reached 875,013. In comparison with the previous year which recorded 580,467 users, this increasing amounts to 51%.

Despite keen competition in the field, HT mobile communications maintained its position as market leader with a strong growth rate, ongoing improvement in its own services and an aggressive market performance. Keeping in mind that this is the most profitable segment of the market, it is important to point out HT's strong market domination in the field of regular subscribers to mobile networks which numbered 199,451 at the end of the year.

For the second year in succession, particular success in attracting new users was achieved with the Christmas product placement. The total mobile communications market in Croatia significantly increased, so that at the end of 2001 it had penetrated 39.6% of the market compared with 22.1% in the previous year.

Dynamic market performance
The exceptionally dynamic market performance of HT mobile communications consists of three segments: introduction of new services, improved customer care, and intensive and creative market communication.

In 2001 almost twenty new services for mobile phone users of HT were introduced. Some of the most important are:
- VPN service - facilitating business systems communication without costs to the internal business system itself.
- GPRS service - providing rapid data transmission by mobile phone.
- Partner Card - providing three additional subscriptions for each HTcronet subscriber (e.g. for small and medium-size firms, or families) with a discount on the subscription amounting to 40, 50 or 60%, depending on the number of additional subscriptions.
- SMSinfo service - providing information services through SMS messages (weather forecast, horoscope, news, etc....).
- SMSstyle - possibility of sending symbols and a selection of ringing tones through SMS.

In the field of customer care, there were significant new initiatives. So, for example, a new Call Centre for mobile phone users was opened in Zagreb. There are 190 people employed there, ready at any moment to help users to obtain mobile phone services. The rate of successful responses to calls is greater than 90 %.

Increase in technical capacity
In the dynamic field of mobile communications business, it is essential to keep on developing capacity to continuously provide the market with competitive services and to reap additional profit from services for mobile Internet and m-commerce.

Consequently, during 2001, many initiatives in the development and optimisation of technical capacities were carried out. The most important are:
- setup of two commutations MSC/VLR (July - December 2001)
- increase of interconnection and general capacity to 1.75 million users, and introduction of SR 9.0.
- extension of HLR capacity to 1,100 users.
- Introduction of centralised monitoring SS7.
- fulfilment of obligations arising from the Agreement on Concession, taking into consideration the number of inhabitants and territory covered by the requirement (September 2001) - two years following the signing of the Agreement on Concession.
- extension of IN system - Dynamic capacity PPS/UCB/SMS-MO/UCB
- extension of VMS platform (July 2001).
- extension of SMS platform (July 2001).
- commercial operation of GPRS platform - (July 2001).

Miscellaneous
HT provides mobile communication services through GSM 900 and NMT 450i systems.

To promote more flexible and effective market performance, HT management approved the establishment of a Business Unit for Mobile Communications in October 2001, with the aim of overseeing the development of services, marketing and sales in the field of mobile communications.

Through a decision of HT on 15 November 2001, the ERMES BiP system was de-activated. During 2001, 58 new contracts on roaming in mobile communications were signed, which constitutes a total of 183 operators in 75 countries where roaming applies.

Internet

Major achievements in 2001:
- increase in the number of users and use of the Internet
- development of Croatian content and popularisation of the Internet in Croatia
- increase in capacity

HThinet, Hrvatski Telekom Internet operator, established a name for itself in 2001 as the key standard-bearer of Croatian internetisation. It has tremendous influence on strengthening the exposure of Croatia on the Internet and thereby on a global level.

The business strategy of HThinet was focused, above all, on increasing the use of the Internet in Croatia, by which a platform would be created for the future generation of additional profit through the development of commercial content-related applications as well as e-commerce.

Key elements of HThinet business operations in 2001 were:
- increase in the number of users and use of the Internet
- reduction in the cost of access
- development of Croatian content and popularisation of the Internet in Croatia
- increase in capacity

Increase in the number of users and use of the Internet
Even though the Internet market in Croatia has been completely deregulated from the very start, from year to year HThinet has been affirming its leading position. Thus, in 2001 it registered growth, not only in the number of users, but also in overall market share.

At the end of 2001 HThinet had 238,586 dial-up users compared with 148,041 on 31 December 2000, representing an increase of 61%. The number of rental users increased by 27%, from 206 in 2000 to 262 users in 2001.

In 2001 HThinet users constituted 72% of the total number of commercial dial-up Internet users. Mainly as a result of HThinet, the total penetration of the Internet in Croatia grew from 7% at the end of 2000 to 12% at the end of 2001.

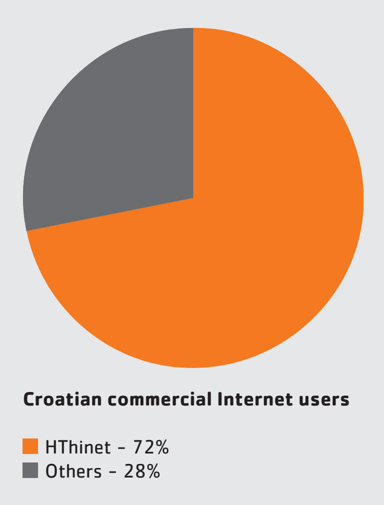
Reduction in costs of access to the Internet
Within the framework of an incentive programme to increase use of the Internet, the cost of access to the Internet dropped several times during 2001.

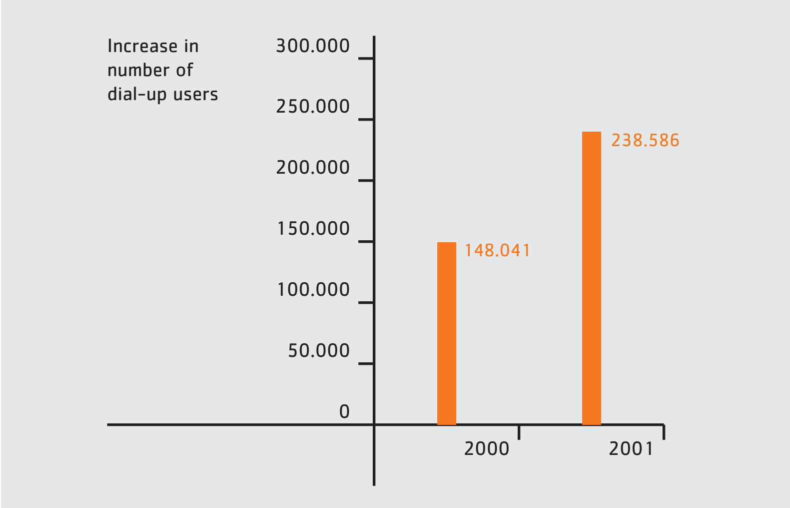
On 1 August 2001, along with a tariff model aimed primarily at individual users, Small and Small Plus, HThinet introduced the Small Super Plus tariff model with the most attractive cost per hour for Internet use. Following a subscription charge of HRK 79, the cost of using the Internet is only HRK 3 per hour, or HRK 1.5 per hour depending on the time when used.

HThinet offers its business users Office, Office Plus and Pro tariff models and in 2001 within the Pro model, it introduced the Pro Dual and Pro Trend services and provided business users with the most economical option for using the Internet. In the year under review, HThinet also launched a new VPN-I service for business users.

Popularisation of the Internet in Croatia
In 2001 the most comprehensive project of the internetisation of the educational system was launched in co-operation with the Ministry of Education and Sport, whereby HT provided an Internet link-up for all primary and secondary schools in Croatia and donated more than 1,000 computers.

One of the basic assumptions of HThinet business strategies in 2001 was that the key to enhancing the growth of the Internet in Croatia was the development of domestic content. Thus, a new HThinet portal was launched which offered the richest source of domestic content on Croatian Internet space.





In 2001 the HThinet portal offered more than 50 columns and about 150 sub-columns located on more than 200,000 pages.

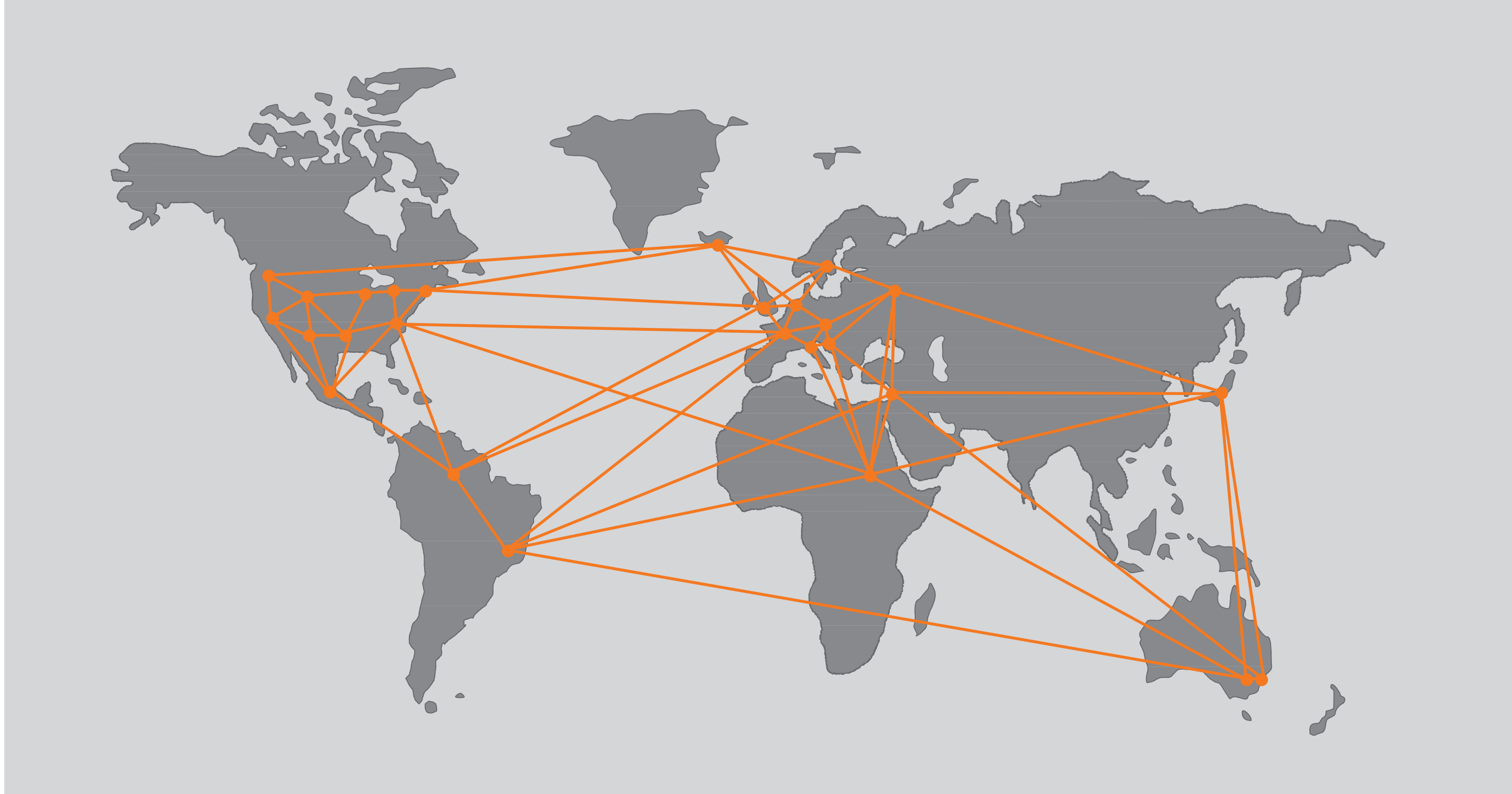
Up to 31 December 2001 the portal moj.hinet.hr registered as many as 120 million visits which represents an impressive increase of 400% over the previous year, with as many as 45,000 registered users. In this way, the HThinet portal became the most visited portal in Croatia.

The HThinet portal also offers many multimedia contents, many of which are produced by HT itself. Thus, in 2001 through the HThinet portal, there were 600 hours of live transmission with more than 300 hours of archived filing. A total of 35,000 streamings were extracted.
It is particularly encouraging that in the first two months of the children's entertainment-educational portal, Hinko, launched in September, a record number of 400,000 visits were recorded.

In activities linked with popularising the Internet, the promotion "Hoću Internet" (I want the Internet) was extremely successful. Within this promotion, integrated packages combining computers and subscriptions to the Internet under exceptionally reasonable terms were put on the market. From its introduction in May until the end of 2001, as many as 12,366 packages were sold.

As a result of the activities of HThinet, Internet operations within Croatia more than doubled in 2001.

In the future, the key strategic priorities of HThinet will be to capitalise on its acquired position as the most relevant source of content on the Internet, to continue the development and commercialisation of applications based on these contents, and to introduce e-commerce.



Increase in capacity

Apart from the main location in Zagreb, HThinet has another node in the capital as well as in 11 other towns (Varaždin, Čakovec, Osijek, Rijeka, Pula, Poreč, Pazin, Zadar, Šibenik, Split and Dubrovnik). The HThinet network is based on the redundant links of 155 Mbps between four main nodes in Zagreb, Rijeka, Split and Osijek. The other nodes are connected with the nearest main node through a bandwidth of 2 Mbps which expands as required.

HThinet is connected to the global network of the Internet through three independent Internet service distributors: American Cables and Wireless, Italian Seabone, and German Deutsche Telekom, with a total capacity of 180 Mbps. All HThinet link capacities are controlled and expand if their utilisation capacity exceeds 70% during peak time.

Within the framework of permanent activities to expand capacity, it should be pointed out that compared with the previous period, in 2001 the number of servers doubled, the capacity of installed discs tripled and the capacity of installed memory increased more than 2.5 times.

Data Transfer Services

During 2001 the main achievements in data transfer services were:
- introduction of VAN
- introduction of ATM multicasting services
- increase of FR link-ups
- introduction of VPN data services

During 2001, the number of ATM link-ups increased to 15 from 2 in 2000 and the number of telegraph users dropped by 12.94%, i.e. to 666 users. The number of X.25 link-ups increased by 19.33% compared with the same period the previous year. The total number of TDM link-ups rose by 63.69% while the total number of FR link-ups was 1,391, representing a growth of 98.15% over 2000.

HT has exclusive rights to provide the following data transmission services: non-managed rental lines, managed rental lines, telegraph, X.25, Frame Relay and ATM. Key products in this area are ATM, Frame Relay and VPN.

A response to new challenges - knowledge transfer

The transfer of international knowledge is the key to business survival within a globalised and dynamic environment.

In 2001, the last year of transition from state to private ownership and on the threshold of the complete opening up of the market, the basic task was to lay the foundations for the optimisation of the development and management of human resources.

These activities are implemented through the following projects:
- educational programmes in accordance with business and corporate units
- integration into the programme of human resources development of the Deutsche Telekom Group
- employment of highly-qualified experts in the most intensive developmental segments
- separation of non-core functions
- high quality programme of supplemental retirement purchase

Within the restructuring framework, the previous Personnel Sector began the process of transformation to the Human Resources Sector. Apart from functional transformation, the Sector began its own personnel adjustment process in order to be able to meet new challenges more professionally. With the new organisational structure, i.e. introduction of human resources as a corporate unit on a Management level, this segment is ranked at the highest level of HT management.

In 2001 the training programmes in the company continued to enable the employees to be better prepared to respond rapidly to the challenges of a dynamic telecommunications industry. In the forthcoming period, 3,000 employees of HT will undergo intensive training programmes. The experience and potential of our strategic partner, Deutsche Telekom, will play an important role in these programmes.

To underscore the importance of synergy in the development of capability and knowledge, in July 2001 HT joined the DT International Project on Human Resources Synergy. In this sphere, HT was authorised to lead one of the three main module projects - "Human Resources Development module".

Co-operation with the DT Group, which has more than 250,000 employees throughout the world, will provide outstanding possibilities for the transfer of international knowledge as well as opportunities for our employees to affirm their capabilities within a global framework.

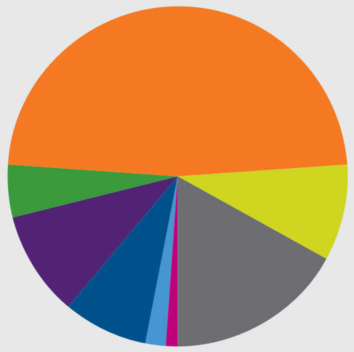
The employment of highly qualified experts, especially in the most dynamic developmental segments of business, continued in 2001. Consequently, during that period 147 experts with the highest qualifications were employed.

Within the scope of streamlining the company and enhancing the specific expertise of those employed, preparations for outsourcing non-core functions were completed in 2001. This process envisages the outsourcing of the following functions: car check stations, car maintenance, restaurants, maintenance of buildings, cleaning, security of personnel, and technical protection. Since these functions are to include 1,400 employees, the programme is being carried out with maximum social sensitivity.

In this socially sensitive process of corporate restructuring for the open market, notable success within the field of human resources has included voluntary early retirement for 337 employees accompanied by benefits which are among the highest in Croatia.

During 2001 a programme was launched to subsidise interest on housing loans as an incentive for long-term employee loyalty and as one of the first steps in adjusting the system of rewards of employees.

In an economy which is based increasingly on human resources rather than natural resources, employees represent the greatest asset of every organisation. Effective development of their resources is essential for business survival in a globalised and dynamic environment. Consequently, human resources will continue to be one of the key strategic priorities of HT.



Employed according to education

- Unqualified - 1%
- Trained on the job - 2%
- Qualified - 8%
- Highly qualified - 10%
- Elementary vocational - 5%
- Secondary vocational - 48%
- Tertiary ed. college - 9%
- Higher education, MSc and DSc - 17%

Financial statements as at 31 December 2001 together with auditors' report

Corporate profile

History and incorporation

HT - Hrvatske telekomunikacije ("HT d.d.", or the "Company"), is a joint stock company in majority ownership of Deutsche Telekom AG ("DTAG"). It was incorporated on 28 December 1998 under the laws of the Republic of Croatia pursuant to the terms of the Law on Separation of Croatian Posts and Telecommunications into Croatian Posts and Croatian Telecommunications (Official Gazette No. 101/98. and 65/99 and Article 10 of Law on Privatization of Hrvatske telekomunikacije d.d.), which involved the Post and Telecommunications businesses of the former HPT - Hrvatska pošta i telekomunikacije ("HPT s.p.o.") being separated and transferred into two new joint stock companies, HT - Hrvatske telekomunikacije d.d. ("HT d.d.") and HP - Hrvatska pošta d.d. ("HP d.d."), which commenced their operations on 1 January 1999.

On 5 October 1999, the Republic of Croatia sold a 35% stake in HT d.d. to DTAG and on 25 October 2001 DTAG purchased a further 16% stake in HT d.d. and thus became the majority shareholder with a 51% ownership stake. DTAG is now represented in the Supervisory Board with five members, the Republic of Croatia with three, and one member still needs to be appointed by the Workers Council of HT d.d..

Principal activities

The principal activities of HT d.d. comprise the provision of telecommunications services, and the design and construction of communications networks in the Republic of Croatia.

HT d.d.'s operations are performed through 20 centres supported by a Telecommunication Directorate and Central Services Departments which are based in Zagreb.

In addition to basic fixed line telephony, including local, long distance, and international calls, HT d.d. operates analogue and GSM mobile telephone networks, called MOBITEL and CRONET, respectively. Other services include a paging service (BiP), data (CROAPAK and CROLINE), internet (HiNet) and telegraph services.

Significant events

On 1 January 2001 the Company decided to adopt the allowed alternative accounting treatment to carry its property, plant and equipment at a revalued amount less accumulated depreciation . International Accounting Standard (IAS) 16, requires that revalued amounts are determined by professional appraisers and, consequently, HT engaged professional appraisers to perform revaluation. The revaluation resulted in a gross write-up of certain property, plant and equipment of HRK 3,275 million, which was recorded through revaluation reserves within equity and in a gross write down of HRK 1,142 million, which was recorded through the profit and loss account for 2001.

Additionally, the Company decided to change the estimate in respect of the useful lives of its property, plant and equipment in order to better approximate normal useful lives of the assets (see notes 9 and 22 for further information).

Financial review and strategy

HT d.d. has continued to develop the range of its services and pricing to respond to competition in the mobile market and to prepare for de-regulation in the fixed telephony market. During 2001, HT d.d. experienced significant growth in the mobile pre-paid market and managed to achieve further growth in fixed line telephony partly as a result of an increased range of services and increase in subscriber numbers. Revenues from telecommunication services for 2001 were HRK 6,788 million of which HRK 4,717 million relate to fixed line telephony, HRK 1,673 million to mobile telephony, and HRK 398 million to data, internet and other services. Profit from ordinary activities before tax for the year was HRK 513 million. The net profit for the financial year amounted to HRK 310 million. Long and short term borrowings amounted to HRK 570 million at year end. Cash balances at 31 December 2001 amounted to HRK 909 million. During 2001 the Company paid remaining dividend in respect of 2000 net profits of HRK 51 million.

HT d.d.'s operating profit was significantly impacted by the revaluation described in the previous section, as HRK 1,142 million of the write down of assets was reported against the current year results, and by the change in estimate in respect of the useful lives of HT's property, plant and equipment which are now significantly longer.

The Company's current telecommunications strategy is geared towards the ultimate aim of integrating networks and services within the concept of an integrated wide-band communications network based on ATM technology, fibre-optic cable transmission infrastructure and SDH transport. In the short term, HT d.d. plans to continue to install new subscriber lines, increase the availability of fibre-optic access points, expand the range of business services and increase the service area and penetration of its mobile telephony networks.

Sub-ordinate regulations passed in the second half of 2001, provide for the right of HT d.d. to be awarded with the UMTS concession under prescribed conditions and for fixed concession fee.

Directors and management

General Assembly

The representatives of the shareholders in the General Assembly are as follows:

Alojz Tušek	President and representative of Republic of Croatia	From 16 June 2000
Wolfgang Breuer	Representative of Deutsche Telekom AG	Until 29 June 2001
Hans Wolfgang Werner	Representative of Deutsche Telekom AG	From 29 June 2001 until 24 October 2001
Christoph von Damm	Representative of Deutsche Telekom AG	From 24 October 2001

Supervisory Board

The members of the Supervisory Board who served during 2001 and subsequently are as follows:

Hans-Albert Aukes	Deputy president	Until 24 October 2001
	President	From 24 October 2001
Ivan Mijatović	President	Dismissed by decision of the Government of Croatia at 15 March 2001
Slavko Linić	Member	Appointed by decision of the Government of Croatia at 15 March 2001
	President	From 6 April 2001 until 24 October 2001
Ana Hrastović	Deputy president	From 24 October 2001
Erika Kašpar	Member	Until 24 October 2001
Wolfgang Breuer	Member	From 24 October 2001
Martin Walter	Member	From 24 October 2001
Michael Gunter	Member	From 24 October 2001
Herbert Muller	Member	From 24 October 2001
Ivan Milić	Member	From 24 October 2001
Milan Stojanović	Member	From 24 October 2001
Fridbert Gerlach	Member	Until 24 October 2001
Ivica Mišetić	Member	Until 12 April 2001
Željko Tabaković	Member	From 12 April until 24 October 2001
Dr. Joachim Peckert	Member	Until 24 October 2001
Georg Pölzl	Member	Until 24 October 2001
Prof. Dr. Mato Crkvenac	Member	Until 24 October 2001
Goranko Fižulić	Member	Until 24 October 2001
Employees representative		Introduced from 24 October 2001, but not yet appointed by the workers council

Board

The members of the Management Board who served during 2001 and subsequently are as follows:

Ivica Mudrinić	President	From 28 December 1998
Armin Schubert	Deputy president	Until 24 October 2001
Božidar Poldrugač	Member	Until 24 October 2001
Gašper Gaćina	Member	Until 24 October 2001
Ingo Richter	Member	From 1 March 2000
Peter Janeck	Member	Until 24 October 2001
Wolfgang Lister	Member	From 24 October 2001
Karim Jadavjee Khoja	Member	From 24 October 2001
Eugen Schulz	Member	From 24 October 2001

Statement of responsibilities of the Management Board

Pursuant to the Croatian Accounting Law (90/92), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) which give a true and fair view of the state of affairs and results of the Company for that period.
In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;

- judgements and estimates are reasonable;

- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and

- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business in the foreseeable future.

The Management Board must also ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Law (90/92). The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The accompanying financial statements were approved for issuance by the Management Board on 19 March 2002.

HT - Hrvatske telekomunikacije d.d.
Jurišićeva 13
10000 Zagreb
Republic of Croatia

On behalf of the Management Board,

I. Mudrinić
19 March 2002
President of the Management Board

Auditor's report

To the Shareholders of HT – Hrvatske telekomunikacije d.d.:

We have audited the accompanying financial statements of HT – Hrvatske telekomunikacije d.d. ("HT d.d." or the "Company"), as at 31 December 2001, as set out on pages 9 to 38 prepared under the accounting policies set out on pages 14 to 21. The financial statements have been prepared on the basis of the International Financial Reporting Standards issued by the International Accounting Standards Board, as required by Croatian Accounting Law (90/92).

Respective responsibilities of the Management Board and auditors

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

Basis of opinion

We conducted our audit of the financial statements of HT d.d. in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the management board as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our auditors' report dated 29 May 2001, our opinion on the 2000 financial statements contained four qualifications which related to the following matters:

1. On 1 January 1999 the telecommunications trade and related net assets of HPT s p.o. were transferred to HT d.d. for consideration of 81,888,535 ordinary shares of HRK 100 each. The net assets were transferred at book value on 1 January 1999. However, the Croatian Accounting Law requires the maintenance of accounting records for a five year period and therefore HT d.d.'s accounting records did not permit the substantiation of the book value of the fixed assets transferred. Consequently, we were not able to satisfy ourselves as to the book value of HT d.d.'s fixed assets and reserves at 1 January 1999, 31 December 1999 and 31 December 2000 and of the depreciation and tax charges to the profit and loss account for the years ended 31 December 1999 and 31 December 2000.

As explained in Note 9 to the accompanying financial statements, in 2001 HT d.d. decided to change its accounting policy in respect of measurement of its property, plant and equipment and to now record at a revalued amount less accumulated depreciation. An independent property revaluation has been performed by professional appraisers as of 1 January 2001. The results have been recorded in the accompanying financial statements.

2. As at 31 December 2000, HT d.d. was in the process of establishing and registering legal title to land and buildings transferred from HPT s p.o. under the Separation Law of 10 July 1998. At that time, we were unable to satisfy ourselves as to whether HT d.d. had established and registered legal title to the majority of its land and buildings.

As explained in Note 9 to the accompanying financial statements, in 2001 HT d.d. performed additional procedures which provided support for the existence of the title to the Company's land and buildings.

3. Investment in associates in the balance sheet as of 31 December 2000 included an amount of HRK 168 million in respect of HT d.d.'s interest in Hrvatska Pošta i Telekomunikacije d.o.o. Mostar (HPT Mostar). This amount represented HT d.d.'s share (29.44% as of 31 December 1999) of the net assets of HPT Mostar as at 31 December 1999, as shown in HPT Mostar's audited financial statements for that year, increased for subsequent contributions of capital of HRK 8 million and decreased by a provision of HRK 50 million. These were the first financial statements of HPT Mostar subject to an audit and the auditors' report covering those financial statements included such significant limitations on scope of work that the auditors issued a disclaimer of the Company's opinion on the financial statements. No audited financial statements of HPT Mostar were available for the year ended 31 December 2000. In these circumstances, we were unable to substantiate the carrying amount of the Company's interest. In addition there was some uncertainty as to the final percentage of HT d.d.'s participating interest.

As explained in Note 10, during 2001 management of HT d.d. made a detailed analysis of the value of its investment in HPT Mostar and based on that made additional provision against it in the amount of HRK 156 million.

4. HT d.d. had adopted depreciation rates for fixed assets and subsequent enhancements in accordance with Croatian Law and its internal accounting policy. These rates were based on asset lives that are generally shorter than the useful economic lives over which the underlying assets are expected to be used, as required by IAS 16. In addition, HT d.d. did not consistently apply its policy to commence depreciation on the date fixed assets and subsequent enhancements are brought into service.

As explained in Note 9, management of HT d.d. made a detailed analysis of the useful lives of all types of fixed assets used by the Company in order to reflect useful economic lives, which were applied from 1 January 2001.

Opinion

In our opinion, except for the effect on the corresponding figures of the adjustments, if any, to the financial position of the Company as at 31 December 2000 and to the results of operations, cash flows and changes in equity for the year then ended, as might have been determined to be necessary in respect of the matter referred to in paragraph 3 above, the financial statements as at 31 December 2001 give a true and fair view of the financial position of the Company, of the results of its operations, cash flows and changes in equity for the year then ended and have been prepared in accordance with International Financial Reporting Standards and the requirements of the Croatian Accounting Law (90/92).

Arthur Andersen d.o.o. Zagreb
Republic of Croatia
Zagreb, 9 October 2001
Zagreb, 19 March 2002

Income statement

For the year ended 31 December 2001

	Notes	2001 HRK millions	2000 HRK millions
Operating income:			
Revenue	3	6.788	5.830
Own costs capitalised		167	299
Other income		89	91
Total operating income		**7.044**	**6.220**
Material costs			
a) Cost of raw materials, consumables and merchandise		(561)	(496)
b) Other material costs and costs of services	4	(1.514)	(1.277)
Staff costs			
a) Gross wages and salaries		(919)	(893)
b) Taxes, contributions and other payroll costs		(305)	(348)
Depreciation, amortisation			
and write down of fixed assets	5	(1.208)	(1.533)
Write down of fixed assets from appraisal	9	(1.142)	–
Write down of current assets		(125)	(65)
Other costs	6	(646)	(450)
Total operating costs		(6.420)	(5.062)
Operating profit		**624**	**1.158**
Financial income		99	4
Financial expense		(64)	(42)
Share of profits of associates	10	10	33
Provision against carrying value of associates	10	(156)	(50)
Income before taxes from ordinary activities		513	1.103
Current tax	7	(359)	(183)
Deferred tax	7	156	–
Net profit for the year		**310**	**920**

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

Balance sheet

31 December 2001

	Notes	2001 HRK millions	2000 HRK millions
ASSETS			
B. Fixed assets			
Intangible assets	8	140	123
Property, plant and equipment	9	10.133	7.719
Investments in associates	10	41	187
Other investments	11	150	34
Long-term receivables		43	45
Deferred tax asset	7	79	–
Total fixed assets		**10.586**	**8.108**
C. Current assets			
Inventories	12	159	103
Debtors	13	1.205	1.043
Investments	11	90	–
Time deposits	27 b)	974	–
Cash and cash equivalents	27 a)	909	705
Total current assets		**3.337**	**1.851**
D. Prepayments and accrued income – current assets		**22**	**20**
F. TOTAL ASSETS		**13.945**	**9.979**

Balance sheet (continued)

31 December 2001

	Notes	2001 HRK millions	2000 HRK millions
EQUITY AND LIABILITIES			
A. Issued capital and reserves			
Subscribed share capital	19	8.189	8.189
Legal reserve	20	82	36
Other reserve	21	(796)	(796)
Retained earnings		1.267	496
Revaluation reserve	22	2.313	-
Net profit for the year		310	561
Total issued capital and reserves		**11.365**	**8.486**
C. Long term liabilities			
Provisions	18	52	-
Employee benefit obligations	17	80	74
Deferred tax liability	7	578	-
Long-term loans	16	294	335
Other long term liabilities		25	26
Total long term liabilities		**1.029**	**435**
D. Current liabilities			
Trade payables and other current liabilities	14	918	682
Income tax payable		143	50
Short-term borrowings and current portion of long-term loans	15	276	179
Total current liabilities		**1.337**	**911**
E. Accruals and deferred income – current liabilities		**214**	**147**
Total liabilities		**2.580**	**1.493**
F. TOTAL EQUITY AND LIABILITIES		**13.945**	**9.979**

The accompanying accounting policies and notes are an integral part of this balance sheet.

Signed on behalf of HT d.d. on 19 March 2002

I. Mudrinić

I. Richter

Cash flow statement

For the year ended 31 December 2001

	Notes	2001 HRK millions	2000 HRK millions
Cash flows from operating activities			
Cash receipts from customers		7.980	6.807
Cash paid to suppliers and employees		(4.374)	(3.702)
Cash generated from operations		3.606	3.105
Interest paid		(32)	(32)
Income tax paid		(266)	(149)
Net cash inflow from operating activities		**3.308**	**2.924**
Cash flows from investing activities			
Acquisition of associates and other companies		-	(4)
Purchase of property, plant and equipment		(1.691)	(1.769)
Purchase of treasury bills		(40)	(78)
Purchase of government bonds		(120)	-
Investment in time deposits		(974)	-
Investment in unit holdings of money market fund		(50)	-
Interest received		59	6
Net cash outflow from investing activities		**(2.816)**	**(1.845)**
Cash flows from financing activities			
Proceeds from borrowings		-	20
Repayment of borrowings		(237)	(134)
Appropriations to shareholders		(51)	(359)
Net cash outflow from financing activities		**(288)**	**(473)**
Net increase in cash and cash equivalents		**204**	**606**
At 1 January 2001/2000		705	99
At 31 December 2001/2000	27 a)	909	705

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

Statement of changes in equity

For the year ended 31 December 2001

	Subscribed share capital HRK mil.	Revaluation reserve HRK millions	Legal reserve HRK millions	Other reserve HRK millions	Retained earnings HRK millions	Net profit for the year HRK millions	Total HRK millions
Balance as at 1 January 2000	**8.189**	**-**	**-**	**(796)**	**-**	**532**	**7.925**
Allocation of net income to retained earnings	-	-	-	-	532	(532)	-
Appropriation of net income to legal reserve	-	-	36	-	(36)	-	-
Profit for the financial year	-	-	-	-	-	920	920
Appropriation to shareholders (in advance)	-	-	-	-	-	(359)	(359)
Balance as at 31 December 2000	**8.189**	**-**	**36**	**(796)**	**496**	**561**	**8.486**
Allocation of net income to retained earnings	-	-	-	-	561	(561)	-
Appropriation of net income to legal reserve	-	-	46	-	(46)	-	-
Revaluation reserve, net of tax effect of HRK 655 million	-	2.620	-	-	-	-	2.620
Depreciation transfer, net of related deferred tax of HRK 77 million	-	(307)	-	-	307	-	-
Profit for the financial year	-	-	-	-	-	310	310
Appropriation to shareholders for 2000	-	-	-	(51)	-	(51)	
Balance as at 31 December 2001	**8.189**	**2.313**	**82**	**(796)**	**1.267**	**310**	**11.365**

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

Notes to the financial statements

1. Status of HT d.d.

HT d.d. is a joint stock company whose shareholders are Deutsche Telekom AG (51%) and the Republic of Croatia (49%).
Under the Separation Law of 10 July 1998, the Telecommunications and Post businesses of HPT s p.o. and the related assets and liabilities were transferred at net book value into two new joint stock companies, HT d.d. and HP d.d. at 1 January 1999. HPT s p.o. ceased operations from that date. The share capital of HT d.d. was registered on 28 December 1998 on the basis of the unaudited balance sheet of HPT s p.o. as at 31 December 1997. The registered office address of the Company is located at Jurišićeva 13, Zagreb, Croatia.

2. Summary of accounting policies

A summary of HT d.d.'s principal accounting policies are set out below:

a) Basis of accounting
HT d.d. maintains its accounting records in Croatian Kuna (HRK) and in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board, effective as of 31 December 2001, and as prescribed by Croatian Accounting Law (90/92) and in accordance with the accounting principles and practices observed by enterprises in Croatia.

b) Basis of preparation (of HT d.d.'s financial statements)
The financial statements have been prepared under the historical cost convention except that:
- Property, plant and equipment are carried at revalued amounts (note h);
- investments held for trading and available-for-sale are stated at their fair value (note s);
as disclosed in the accounting policies hereafter.

c) Changes in accounting principles
The following changes in accounting principles have been introduced in accordance with the requirements of the respective standards or as a result of the change in HT d.d.'s accounting policies:
- HT d.d. has changed its accounting policy for accounting for its property, plant and equipment as it decided to adopt the allowed alternative treatment in accordance with IAS 16 and to carry it at revalued values.
- Following the introduction of IAS 39, Financial Instruments: Recognition and Measurement, available-for-sale investments are carried at fair value and all derivative financial instruments have been recognised as assets or liabilities.
The opening balance of equity (retained earnings and hedging reserve) as at 1 January 2001 has not been adjusted as the carrying amount of all available for sale investments equals to its fair value at this date. In accordance with standard, prior year comparative figures have not been restated.

d) Measurement currency
HT d.d.'s financial statements are prepared in HRK. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2001 was HRK 8.36 (31 December 2000 - HRK 8.16) per United States Dollar (USD) and HRK 7.37 per Euro. All amounts disclosed in the financial statements are stated in millions of HRK if not otherwise stated.

e) Investments in associates
Investments in associated companies (generally investments with between a 20% to 50% ownership interest in a company's equity) where significant influence is exercised by HT d.d. are accounted for using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist. Unrealised gains arising from transactions with associates are eliminated to the extent of the Company's interest in the associate, against the investment in the associate.

f) Other investments
All other investments are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement as further disclosed in note s.

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

h) Property, plant and equipment
Property, plant and equipment are stated at revalued amounts less accumulated depreciation and any accumulated impairment loss. Independent property revaluations are performed when the carrying amount becomes materially different

from the fair values. The last valuation was performed by the professional appraisers as of 1 January 2001. Any increase in a property, plant and equipment's valuation is credited to the property revaluation surplus, unless and only to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense in which case it is recognised as income.

Any decrease is first offset against an increase related to an earlier valuation in respect of the same asset and is thereafter recognised as an expense. The relevant portion of the revaluation surplus realised in respect of a previous valuation is released from the asset valuation surplus directly to retained earnings upon the disposal of revalued asset and as the asset is used.
The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Depreciation is computed on a straight-line basis. At the time of the last valuation described above, the Company made a detailed review of the remaining useful lives of its property, plant and equipment. The revised remaining useful lives are on average as follows:

Buildings	12 years
Machinery and equipment	6 years
Furniture and vehicles	6 years

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

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes the cost of construction, plant and equipment and other direct costs.

Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

i) Impairment of assets
- Financial instruments
For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans, receivables or held-to maturity investments, an impairment or bad debt loss is recognised in the income statement.
- Other assets
Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income or treated as a revaluation decrease for property, plant and equipment that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

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

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

n) Taxation
The income tax charge is based on profit for the year and includes deferred taxation. Deferred taxes are calculated using the balance sheet liability method.
Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.
Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.
The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.
Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.
Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

o) Employee benefit obligations
The Company provides defined benefit plans for all employees. The obligation and costs of pension benefits including jubilee benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Past service costs are recognised on a straight line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.
The Company offered possibility for early retirement to certain employees that meet conditions in respect of age and years of service. The amount of payment in respect of early retirement that is to be paid to employees is computed based upon average salaries and an additional amount that depends on the age and years of service.

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

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

r) Borrowings
Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings, are expensed in the period in which they are incurred.
Borrowings are initially recognised at the proceeds received, net of transaction costs.

s) Investments
In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Company adopted accounting policy for recognition and measurement of financial instruments which is applicable from 1 January 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale.

Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments are included in current assets unless they mature more than 12 months after the balance sheet date and contract terms do not allow their earlier maturity. Investments held for trading are included in current assets.

Available-for-sale investments are classified as current assets if management intends to realise them within 12 months after the balance sheet date and contract terms do not allow its earlier maturity. All purchases and sales of investments are recognised on the trade date.

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

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

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

Changes in the fair values of trading investments are included in financial expense.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

t) Provisions
A provision is recognised when, and only when, the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

u) Equity
- Liabilities and equity
Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition.

Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instruments is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

- Revaluation reserves
This reserve includes the cumulative net change in the fair value of property, plant and equipment carried at revalued amounts. An amount corresponding to the difference between depreciation based on the revalued carrying amount of the property, plant and equipment and depreciation on the property, plant and equipment's original cost is transferred annually from the revaluation reserve to retained earnings as a change in equity.

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

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

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

3. Revenue

a) Revenue – by business

	2001 HRK millions	2000 HRK millions
Revenue from fixed telephony	4.717	4.355
Revenue from mobile telephony	1.673	1.162
Revenue from internet and data services	353	272
Other revenue	45	41
	6.788	**5.830**

b) Revenue – by geographical area

	2001 HRK millions	2000 HRK millions
Republic of Croatia	5.916	4.946
Rest of the World	872	884
	6.788	**5.830**

The total number of employees as at 31 December 2001 was 11,053 (2000: 11,219).

4. Other material costs and costs of services

	2001 HRK millions	2000 HRK millions
Advertising costs	258	129
Maintenance services	116	141
International settlements- fixed telephony	418	403
International settlements – GSM	83	113
International settlements – leased lines	33	19
International settlements – Internet	27	21
Domestic interconnect – fixed telephony	367	243
Domestic interconnect – GSM	21	38
Rent	25	17
Other costs	166	153
	1.514	**1.277**

5. Depreciation, amortisation and write down of fixed assets

	2001 HRK millions	2000 HRK millions
Depreciation	1.116	1.512
Amortisation	23	21
Write down of excessive spare parts	69	-
	1.208	**1.533**

Please refer to note 9 for further details on depreciation expense.

6. Other costs

	2001 HRK millions	2000 HRK millions
Daily allowances	37	27
Travel allowances	37	34
Bank charges, membership and other fees	63	58
Education and consulting cost	195	82
Loss on disposal of fixed assets	19	58
Security costs	19	17
Contract workers	12	17
Provision for charges (refundable subscription fee)	-	9
Expense related to employee benefit obligations (note 17)	38	31
Provision for charges and risks (note 18)	52	-
Other operating charges	174	117
	646	**450**

7. Taxation

a) Tax on profit on ordinary activities

	2001 HRK millions	2000 HRK millions
Current tax expense	359	183
Deferred tax benefit	(156)	-
Total income tax	**203**	**183**

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

	2001 HRK millions	2000 HRK millions
Profit on ordinary activities before taxation	513	1.103
Income tax at 20% (2000 - 35%)	103	386
Tax effects of income not taxable in determining taxable profit:		
Dividends received	(4)	(13)
Tax effects of expenses that give rise to temporary differences that were not recognised as deferred tax assets:		
Provision for obsolete inventories	25	-
Impairment losses on investments	31	18
Provision for bad debts	30	76
Tax effects of expenses not deductible in determining taxable profit:		
Entertainment expenses	2	4
Other non-deductible expenses	16	12
	203	**483**
Other		
Imputed interest	-	(294)
Protective interest on tax prepayments	-	(6)
	-	(300)
Taxation	**203**	**183**

The difference between current tax expense of HRK 359 million and net income tax expense of HRK 203 million represents the deferred tax benefit. This benefit of HRK 156 million relates to the release of part of the deferred tax liability recognised as a result of the revaluation of property, plant and equipment (HRK 77 million) and to the part of the write down of the property, plant and equipment that will be tax deductible in future periods (HRK 79 million).

The Company has not recognised any deferred tax in respect of non-deductible costs such as impairment losses on investments, provisions for bad debts and obsolete stock as a result of the management's opinion that there is insufficient support to claim deduction in future periods.
There has been a change in the Croatian Income Tax Law as at 1 January 2001. The most significant changes in comparison to the old Income Tax Law are that the income tax rate has decreased from 35% in 2000 to 20% in 2001 and that the recognition of imputed interest on share capital is no longer allowed for taxation proposes.

Component of deferred tax assets and liabilities are as follows:

	Assets 2001 HRK millions	Liabilities 2001 HRK millions
Property, plant and equipment write-down	79	-
Property, plant and equipment write-up	-	(578)
At 31 December	**79**	**(578)**

No deferred tax asset or liability has been recognised as at 31 December 2000.

The deferred tax asset arises on the property, plant and equipment write-down as a result of the fact that HRK 395 million of the write-down reported in 2001 will be tax deductible in future periods.
The deferred tax liability arises on the property, plant and equipment write-up as a result of the fact that revaluation is only done for accounting purposes. The deferred tax liability was at recognition taken directly to equity and is released as tax benefit in the profit and loss account.
The deferred tax liability recognised directly in equity during the period is as follows:

	2001 HRK millions
Property, plant and equipment write-up	655
Depreciation transfer from revaluation reserves	(77)
	578

8. Intangible assets

	2001 HRK millions	2000 HRK millions
Cost		
At 1 January	208	189
Additions	40	19
At 31 December	**248**	**208**
Accumulated amortisation		
At 1 January	85	64
Amortisation for the year	23	21
At 31 December	**108**	**85**
Net book value		
At 1 January	123	125
At 31 December	**140**	**123**

The carrying value of the GSM licence as of 31 December 2001 is HRK 77 million (2000: HRK 87 million). This licence is amortised over a period of 10 years starting in September 1999. The rest of the balance primarily relates to the various licences for use of software and other licences.

9. Property, plant and equipment

In 2001 the Company changed its accounting policy relating to the subsequent measurement of its property, plant and equipment from historical cost to revalued amounts. In accordance with the new policy, independent valuations will be performed periodically and the first valuation was performed by professional appraisers as of 1 January 2001. The appraisal company determined the fair value of the entire amount of the Company's property, plant and equipment based on their market value as at 1 January 2001. When there was no evidence of market value because of the specialised nature of the property and equipment and because the items are rarely sold, they were valued at the depreciated replacement cost.
The Company's management estimates that there have not been significant changes in economic circumstances since this valuation was performed that would affect the fair value of its property, plant and equipment carried at revalued amounts at the balance sheet date.
Gross write up recognised through revaluation reserves of HRK 3,275 million was initially reflected in the accompanying financial statements. The balance reported as at 31 December 2001 was HRK 2,313 million. The decrease of HRK 962 millions relates to the fact that the Company recognised deferred tax liability in the amount of HRK 655 millions at the time of revaluation and to the fact that there has been release of revaluation reserves to retained earnings in the amount of HRK 307 million (net of HRK 77 million of deferred tax) as shown in the statement of changes in equity.

Gross write downs were reported in the profit and loss account for the year ended 31 December 2001 of HRK 1,142 million.
The net increase in property, plant and equipment recognised at the time of revaluation was HRK 2,133 million.
The Company did not calculate the value of the property, plant and equipment that would have been recorded in the financial statements had the property, plant and equipment been carried under the benchmark treatment, as its accounting records did not permit the substantiation of this value.

	Land and buildings HRK millions	Plant and machinery HRK millions	Tools, vehicles and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Revaluation summary					
Net book value at 31 December 2000	4.477	2.161	105	-	6.743
Write-up resulting from revaluation	2.339	784	152	-	3.275
Write-down resulting from revaluation	(977)	(154)	(11)	-	(1.142)
Net revaluation effect at 1 January 2001	1.362	630	141	-	2.133
Valuation of revalued assets as at 1 January 2001	5.839	2.791	246	-	8.876
Fixed asset movement table (after revaluation)					
Cost or valuation					
At 1 January 2001	5.839	2.791	246	1.087	9.963
Additions	28	5	3	1.501	1.537
Transfers	325	1.092	18	(1.435)	-
Disposals	(4)	(22)	(4)	(35)	(65)
At 31 December 2001	6.188	3.866	263	1.118	11.435
Accumulated depreciation					
Accumulated depreciation of assets not appraised at 31 December 2000	-	-	-	111	111
Charge for the year	492	585	39	-	1.116
Disposals	(4)	(11)	(2)	-	(17)
Provision	-	-	-	92	92
At 31 December 2001	488	574	37	203	1.302
Net book value					
At 31 December 2001	5.700	3.292	223	918	10.133

As stated in the summary of accounting policies, assets under construction are stated at cost and are therefore not included in the revaluation summary above.
Included within assets under construction are fixed asset spare parts of HRK 324 million (2000: HRK 386 million), net of a provision of HRK 193 million.
9 In 2001 HT d.d. performed additional procedures, which provided support for the existence of legal title to land and buildings transferred from HPT s p.o. under the Separation Law of 10 July 1998. HT d.d. is still in the process of formally registering this legal title.

Depreciation transfer from revaluation reserve

An amount corresponding to the difference between depreciation based on the revalued carrying amount of the property, plant and equipment and depreciation based on the property, plant and equipment's original cost is transferred annually from the revaluation reserve to retained earnings as a change in equity.

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

Change in depreciation lives

Until 2001 HT d.d. had adopted depreciation rates for property, plant and equipment and subsequent enhancements in accordance with Croatian Law. These rates were based on asset lives that are generally shorter than the useful economic lives over which the underlying assets are expected to be used, as required by IAS 16. In 2001, management of HT d.d. made a detailed analysis of the useful lives of all types of property, plant and equipment acquired during 2001. Additionally, professional appraisers prospectively revised remaining lives of the revalued assets. The corresponding change in depreciation lives has been accounted for as a change in accounting estimate.

The Company did not calculate the change in the depreciation charge for 2001 that resulted from this change in estimate as its accounting records did not permit the substantiation of the value of its property, plant and equipment before revaluation.

10. Investments in associates

The investments in associates comprises:

	2001 HRK millions	2000 HRK millions
HPT d.o.o. Mostar	20	168
Eronet d.o.o.	21	19
At 31 December	**41**	**187**

HT d.d. has the following associates incorporated in the Federation of Bosnia and Herzegovina.

Entity	Country of Business	Principal Activities	Ownership Interest
HPT d.o.o. Mostar	Federation of Bosnia and Herzegovina	Provision of post and fixed line telecommunication services	30.29%
Eronet d.o.o.	Federation of Bosnia and Herzegovina	Provision of mobile telecommunication services	49.00%

The movement in investments in associates during the year was as follows:

	2001 HRK millions	2000 HRK millions
Cost and net book value		
At 1 January	187	201
Share of profits	10	33
Additional investment	-	3
Current year provision for impairment	(156)	(50)
At 31 December	**41**	**187**

11. Other investments

	2001 HRK millions	2000 HRK millions
Available-for-sale investments - non-curren:	150	34
Total non current investments	**150**	**34**
Available-for-sale current investments	50	-
Held-to-maturity investments - current	40	-
Total current investments	**90**	**-**

(i) Held-to-maturity investments
Current held-to-maturity investments include 400,000 treasury bills issued by the Ministry of Finance at HRK 96.4 with the redemption value of HRK 100 and a maturity date of 25 April 2002.

(ii) Available-for-sale investments
Non-current available-for-sale investments include bonds with the market value as at 31 December 2001 of HRK 41 million, issued by the Government Agency for Savings Security and Bank Restructuring with a fixed interest rate of 8.375 % and a maturity date of 19 December 2005 and bonds with the market value as at 31 December 2001 of HRK 40 million issued by the same Agency with a fixed interest rate of 8 % and a maturity date of 19 December 2003.

Further, it includes bonds issued by Government of Croatia with a value of HRK 38 million, with a fixed interest rate of 6.5% payable semi-annually and with a principal payable on 20 September 2004.

The remaining HRK 31 million of non-current available-for-sale investments include a portfolio of various equity securities.

Current available-for-sale investments include unit holdings in a money market fund of Zagrebačka Banka.

12. Inventories

	2001 HRK millions	2000 HRK millions
Merchandise	133	86
Other	26	17
	159	**103**

13. Debtors

	2001 HRK millions	2000 HRK millions
Trade debtors	985	1,005
Other debtors	220	38
	1.205	1.043

14. Trade payables and other current liabilities

	2001 HRK millions	2000 HRK millions
Trade payables	358	484
VAT and other taxes payable	55	12
Payroll and payroll taxes	105	60
Accrued liabilities	346	120
Other creditors	54	6
	918	**682**

15. Short-term borrowings and current portion of long-term loans

	2001 HRK millions	2000 HRK millions
Bank loans	38	62
Supplier loans	238	117
	276	179

HT d.d. has two foreign currency bank loans. The first loan is for DEM 50 million and bears an interest rate at EURIBOR plus 0.5% per annum on the outstanding principal. The loan is being repaid in semi-annual instalments over a 5 year period ending 11 June 2002. The second loan is in respect of a term loan facility for EUR 7 million of which EUR 2 million had been drawn down at 31 December 2001. The facility bears an interest rate at EURIBOR plus 0.48 % per annum on the outstanding principal. The loan is to be repaid in semi-annual instalments over a 3 year period, with the last instalment payable at 1 October 2002.

HT d.d. has several long-term unsecured loan agreements with its domestic and foreign suppliers totalling HRK 356 million, DEM 33 million, Euro 2 million and USD 7 million respectively. These loans bear interest rates ranging from 1.75% to 8.00% per annum on the outstanding principal. Repayments are made semi-annually. The liabilities at 31 December 2001 are to be repaid over the next 1 to 6 years. The fair value of these liabilities is not materially different to the carrying value recognised.

16. Long-term loans

	2001 HRK millions	2000 HRK millions
Bank loans	-	40
Supplier loans	294	295
	294	335

Supplier loans represent the long-term portion of the unsecured supplier loans discussed in note 15.

17. Employee benefit obligations

The Company provides defined benefit pension plans for all employees. Provisions for pension obligations are established for benefits payable in respect of retirement, jubilee (length of service) and surviving dependent pensions. Retirement benefits are dependent on employees fulfilling the required conditions to enter retirement from the Company and jubilee benefits are dependent on the number of years of service. All benefit entitlements are determined from the respective employee's monthly remuneration.

The obligation resulting from defined benefit pension plans is determined using the projected unit credit method. Unrecognised gains and losses resulting from changes in actuarial assumptions are recognised as income / (expense) over the expected remaining service life of the active employees. There were no plan terminations or curtailments for the year ended 31 December 2001.

The following table reconciles the funded status of defined benefit plans to the amounts recognised in the balance sheet.

	2001 HRK millions	2000 HRK millions
Present value of funded defined benefit obligations	246	212
Unrecognised actuarial gains and losses	(152)	(123)
Unrecognised past service cost	(14)	(15)
Net liability	**80**	74

Pension expense comprises the following:

	2001 HRK millions	2000 HRK millions
Current service cost	15	12
Interest expense on obligations	15	13
Net actuarial losses / (gains) recognised	-	-
Amortisation of past service cost	1	1
Amortisation of loss	7	5
Total pension expense	**38**	31

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

	2001 HRK millions	2000 HRK millions
Net liability, beginning of year	74	71
Net expense recognised in the income statement (Note 6)	38	31
Payments made under scheme	(32)	(28)
Net liability, end of year	**80**	**74**

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

	2001 %	2000 %
Discount rate (p.a.)	7,0	7,0
Wage and salary increases (annually)	5,0	5,0

18. Provisions

As at 31 December 2001 the Company has provided HRK 52 million for several legal actions and claims that will probably be asserted in the future against HT.

19. Share capital

	2001 HRK millions	2000 HRK millions
Authorised, issued, fully paid and registered share capital		
81,888,535 ordinary shares of HRK 100	8.189	8.189

The number of shares in issues remained unchanged between 1 January 1999 and 31 December 2001.

20. Legal reserves

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

21. Other reserves

Other reserves are result of certain adjustments made to the assets and liabilities transferred from HPT s p.o. at 1 January 1999 to reflect certain assets and liabilities that were not adequately incorporated within the net assets transferred at 1 January 1999.

These adjustments primarily related to an appropriation of HRK 370 million that was declared on 1 June 1999 in respect of the 1998 profits of the former HPT s p.o. and an additional amount payable in respect of taxes in the amount of HRK 240 million that resulted from the review subsequently performed by the tax authorities.

22. Revaluation reserves

	milijuni kuna
Revaluation of property, plant and equipment	3.275
Deferred tax liability as at 1 January	(655)
Release of revaluation reserves to retained earnings (net of deferred tax)	(307)
Balance as at 31 December 2001	**2.313**

Release of revaluation reserves to retained earnings corresponds to the difference between depreciation based on the revalued carrying amount of property, plant and equipment and depreciation based on the property, plant and equipment's original cost, as explained in Note 9.

23. Commitments

a) Operating lease commitments
The Company has operating lease commitments in respect of buildings and equipment.
Operating lease charges consisted of the following:

	2001 HRK millions	2000 HRK millions
Current year expense	29	19

Future minimum lease payments under non-cancellable operating leases with a term of more that one year as at 31 December were as follows:

	2001 HRK millions	2000 HRK millions
Within one year	28	13
Between 2 and 5 years	44	26
Greater than 5 years	18	23

The contracts relate primarily to property leases and car leases and are signed at usual business terms.

b) Capital commitments
As at 31 December 2001, HT d.d. was committed under contractual agreements to capital expenditures amounting to approximately HRK 858 million (31 December 2000 - HRK 435 million).

24. Contingencies

a) Taxation
There are no formal procedures in Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the subsequent five years. Accordingly, there remains a risk that the relevant tax authorities may have a different opinion to HT d.d. as to the interpretation and application of the law on HPT s p.o. or its successor, which could have an effect on the tax charge in the income statement for the years ended 31 December 2001, 31 December 2000, 31 December 1999 and 31 December 1998 and the current taxation amounts due at 31 December 2001, 31 December 2000, 31 December 1999 and at 31 December 1998.

b) Litigation
At the time of preparation of these financial statements, there are a number of claims outstanding. In the opinion of the Management Board, the settlement of these or any future claims that may be brought against HT d.d. or its predecessor HPT s p.o., will not have a material adverse effect on the financial position of HT d.d.

c) Refundable connection fees
Prior to the former HPT s.p.o's formation in 1990 and subsequently, HPT s p.o. or its predecessor entities (together "HPT") entered into contracts with customers and municipalities, which provided for the payment of connection fees to HPT. There were variations in the terms of these contracts between regions but certain contracts provided for the refund of connection fees on disconnection or other specified event.
In addition, in war affected areas there is uncertainty as to whether all subscribers who had paid connection fees were actually connected. On 1 January 1999 HT d.d. assumed responsibility for the liability arising out of these contracts under the terms of the Separation Law.

Consequently, HT d.d. bears the risk noted above and may have an unrecorded liability for the refund of connection fees although the extent of any such exposure cannot reliably be determined.

The Management Board is of the opinion that the actual amounts not provided, which will require to be refunded in the future, are immaterial in the context of these financial statements.

d) Guarantee
HT d.d. has entered into guarantee in respect of supplier loan to Eronet d.o.o. (associate company) as follows:

	2001 HRK millions
Amount of guarantee in respect of associate (DEM 27 million)	105
Amount paid by the associate during 2001 (DEM 10 million)	(39)
Amount of the outstanding guarantee (DEM 17 million)	66

The Management Board of HT d.d. do not expect this guarantee to be exercised or that in the event the guarantee being exercised that any material loss would result to HT d.d..

25. Balances and transactions with related parties

The main transactions with related parties during 2001 were as follows:

		Revenue		Expenses	
		2001	2000	2001	2000
Company	Service	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	International settlements	128	266	83	105
	Intercompany services	-	-	152	60
HPT Mostar,	International settlements	45	23	34	19
DeTeMobil, Germany	International settlements	23	-	8	-
Matav, Hungary	International settlements	11	-	10	-
Sprint, USA	International settlements	10	-	1	-
Eronet, Bosnia nd Herzegovina	International settlements	7	12	2	1
Max Mobil, Austria	International settlements	7	-	3	-
PTC-ERA, Poland	International settlements	5	-	-	-
Westel 900, Hungary	International settlements	4	-	2	-
Macedonia telecom	International settlements	3	-	6	-
RadioMobil, Czech Republic	International settlements	2	-	1	-
Slovakia Telecom	International settlements	2	-	3	-
MTS, Russia	International settlements	1	-	1	-
Wind, Italy	International settlements	1	-	1	-
EuroTel Bratislava, Slovakia	International settlements	1	-	-	-
Mobimak, Macedonia	International settlements	1	-	2	-
		251	301	**309**	185

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

The transactions specified in the above table primarily relate to the transactions with the companies owned by DTAG. The Company enters into transactions in the normal course of business on an arm's length basis. These transactions include the sending and receiving of international traffic to/from these companies during 2001. Further, Deutsche Telekom AG provided technical assistance to HT d.d. in the amount of HRK 152 million.

HT d.d. provided a guarantee for Eronet d.o.o. as detailed in note 24 d).
The balance sheet includes the following balances resulting from transactions with related parties:

		Receivables		Payables	
		2001	2000	2001	2000
Company	Service	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	International settlements	51	51	38	60
	Intercompany services	-	-	30	-
HPT Mostar, Bosnia and Herzegovina	International settlements	45	4	34	-
Matav, Hungary	International settlements	9	-	8	
Sprint, USA	International settlements	5	-	-	-
Eronet, Bosnia and Herzegovina	International settlements	1	11	-	-
Westel 900, Hungary	International settlements	1	-	-	-
Macedonia Telecom	International settlements	2	-	3	-
Slovakia Telecom	International settlements	1	-	2	-
		115	66	**115**	60

26. Financial instruments

The Company is exposed to international, commodity-based markets and has loan financing. As a result, it can be affected by changes in foreign exchange rates and interest rates. The Company also extends credit terms to its customers and is exposed to a risk of default. The significant risks together with the methods used to manage these risks, are described below. The Company does not use derivative instruments to manage risk nor for speculative purposes.

a) Credit risk

The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. The Company procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.
The Company does not guarantee obligations of other parties except as described in the Note 24 d).
The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of debtors (refer to Note 13) net of provisions for impairment recognised at the balance sheet date.

b) Liquidity risk

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

c) Foreign exchange risk

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

27. Cash and cash equivalents and time deposits

a) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2001	2000
	HRK millions	HRK millions
Cash on hand and balances with banks	798	627
Short-term investments	111	78
Cash and cash equivalents	**909**	705

b) Time deposits

Time deposits are accounts that bear interest from 3.35% to 5.5% and that the HT is entitled to withdraw with prior notice. HRK 516 million of time deposits is held at Privredna Banka Zagreb and relates to Euro denominated time deposits (Euro 70 million) and HRK 458 million is held at Zagrebačka Banka and relates to Euro denominated time deposit (Euro 62 million).

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