HT Hrvatski Telekom

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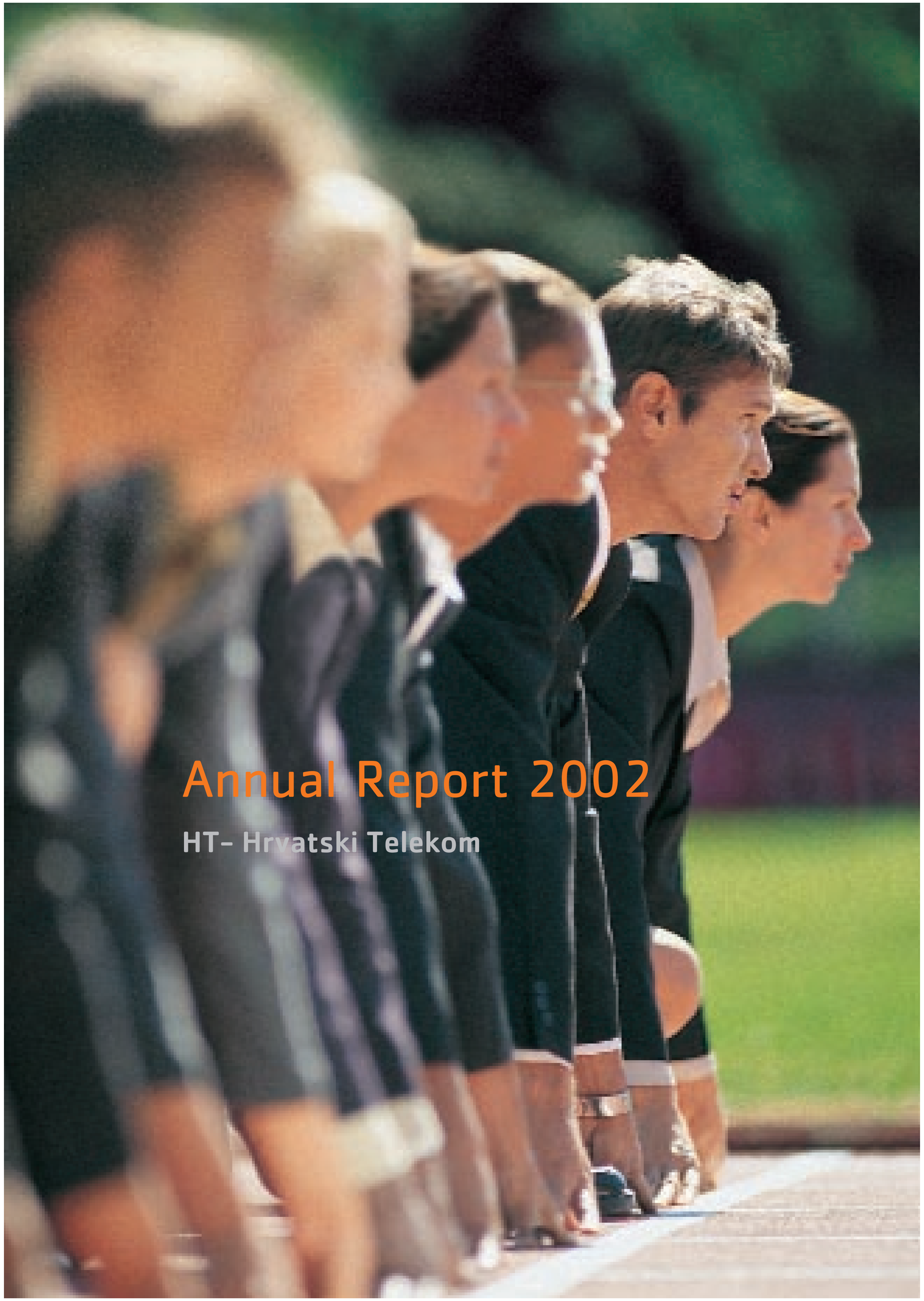
HT - Hrvatske Telekomunikacije d.d.
Andrije Hebranga 32-34, HR-10 001 Zagreb



KEY FINANCIAL INDICATORS

Earnings position (HRK millions)	Change	2002	2001
Revenue	11.14%	7,544	6,788
Own costs capitalised	-70.66%	49	167
Other income	24.72%	111	89
Total operating income	**9.37%**	**7,704**	**7,044**
Material costs	4.58%	-2,170	-2,075
Staff costs	4.41%	-1,278	-1,224
"Depreciation, amortisation and write-down of fixed assets"	8.20%	-1,307	-1,208
Write-down of fixed assets from appraisal		-	-1,142
Write-down of current assets	-21.60%	-98	-125
Other costs	5.11%	-679	-646
Total operating costs	**-13.83%**	**-5,532**	**-6,420**
Operating profit	**-**	**2,172**	***624**
Net profit for the year	**-**	**1,864**	***310**

Assets and liabilities (HRK millions)	Change	2002	2001
Fixed assets	0.30%	10,618	10,586
Current assets	38.39%	4,618	3,337
Prepayments and accrued income	-4.55%	21	22
Issued capital and reserves	16.13%	13,198	11,365
Long term liabilities	-29.45%	726	1,029
Short term liabilities	-14.51%	1,143	1,337
Accruals and deferred income	-11.21%	190	214
Total assets and liabilities	**9.41%**	**15,257**	**13,945**

Financing (HRK millions)	Change	2002	2001
Net cash inflow from operating activities	3.44%	2,828	2,734
Net cash outflow from investing activities	-29.03%	-1,799	-2,535
Net cash outflow from financing activities	-	-502	5

Ratios	2002	2001
Assets turnover	50.49%	*50.51%
Current ratio	4.04	2.49
Financial leverage ratio (total liabilities/subscribed capital)	0.25	0.32
ROE	14.12%	*2.73%
ROA	12.22%	*2.22%
ROS	24.19%	*4.33%

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

Content

Introduction

Communication is the basis of partnership.

Croatian Telecom Inc., the leading telecommunication service provider in Croatia, has been constantly introducing the most outstanding technologies and is side by side with the biggest companies in the world on the telecommunication market. Another business year has been successfully completed and this is made possible by impeccable co-ordination among operating units, as well as to the particular attention paid to the clients with the awareness that the communication determines the modern social trends.

Letter of the CEO

Dear Shareholders,

I have a special pleasure in presenting the Annual report of Hrvatski Telekom for the year 2002.

In a stable macroeconomic environment with a real GDP growth of 5.2%, the operation of HT has remained successful and has outstripped the growth rate of the Croatian economy as a whole. The final results may be evaluated as very good: revenues and profit from operating activities have increased, our leading position in all segments of the telecommunications industry has been retained, a stable cash flow has been achieved and the financial KPIs have improved, while the process of successful transformation of HT and realization of the set strategy has continued.

The year 2002 was marked by further developments in the area of mobile communications and internet services. Owing to a considerable interaction with the Croatian public and thanks to a figure of 3.5 million user relationships, we are taking a wider look at the role of HT: through both further informatization and the education of existing and new customers in the country.

For the first time we are presenting consolidated financial reports of the HT Group (HT); at the end of 2002 the company HT pokretne komunikacije d.o.o. was founded - in 100%-ownership of Hrvatske telekomunikacije d.d. (HT d.d.). The newly founded company began operating subsequently on January 1 2003 and therefore the financial reports of HT Group and HT d.d. for 2002 are almost identical. With the new brand "HTmobile" and to some extent a larger independence and flexibility, the newly founded company within the HT Group will successfully continue the further development of the personal communications system.

In this way, HT continues to hold the leading position in all three segments of the telecommunications industry, showing a revenue growth of 11.1% from core telecommunications activities eventually amounting to 7.5 billion HRK. Thus fixed networks had a revenue growth of 7.1%, mobile communications of 24. 2% and the segment of Internet and data services had a decrease in revenue of 1.1% (within this, the revenues from internet services enjoyed a growth of 44. 8%).

Both the profit from operating activities and the final net profit of HT experienced a significant increase over 2001 (net profit increased from 310 million HRK to 1.86 billion HRK). While a fair share of this increase undoubtedly resulted from our business success during 2002, the largest part of the difference in the accounting profit was generated as a result of significant one-off non-cash expenditures by HT in the year 2001 (Value adjustment of specific fixed assets in 2001).

Due to the great importance that the Company attaches to transformation, the improvement of internal processes, the training of employees and taking position in the market over the year 2002, there was an increase in some categories of costs. On the other hand, some savings were attained mainly in the procurement, stock and transportation areas.

We continue to achieve a strong and stable cash flow from operating activities (a growth of 3.4%). A significant part of the cash flow from 2002 was used for investments (above the annual depreciation level) and early repayment of a large part of our financial liabilities.

Ivica Mudrinić, President of the Management Board of Croatian Telecom

"Taking all this into consideration, I may conclude that the Company's operations were successful in 2002 and that results were very good. The set strategy has been achieved decisively and in line with the plan. We are very optimistic about the future and convinced that we will achieve all our goals and that our business results will be even better."

The assets of HT Group were increased by 9.4% while the position Capital and Reserves showed a growth of 16.1%. All financial KPIs were improved, for example: Return on shareholders equity is 14.1%, and the indicator Total liabilities/total assets is 13.5%.

The key characteristics of operations in the fixed network segment in 2002 are: stability, improvement of service quality, repositioning in the market, improvement of infrastructure and preparation for deregulation. Our significant achievements on that road are: the creation of a market-recognizable brand "HTtel", the conduct of several successful campaigns, the improvement of a specific number of existing services and the introduction of new ones, contracting with a few key accounts, shortening of deadlines for the completion of individual services, and smaller waiting lists. I especially point out that a significant investment in the fixed network has yielded its result in the network's 100%-digitalization.

The mobile communications segment is characterized by the constant introduction of new services, by continued growth and by our leading market position. By means of a customer growth figure of 41.9% and revenue growth of 24.1% we succeeded in maintaining our leading market position. At the year's end the total market share of HTmobile is 53%. The year 2002 was also marked by significant investments and technical development; for example as at 31. 12. 2002 the Cronet GSM network covers about 91% of the territory and 96% of the Croatian population. As I stated previously, the mobile communications operation from January 1 2003 was transferred to the newly founded company HTmobile - in the 100%-ownership of HT d.d.

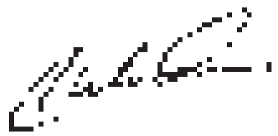
The total revenues of the segments of Internet and data services are at the last year's level, but show an outstanding growth in the segment of Internet services. Although this segment has a very large growth from year to year (for example: a revenue increase of 44.8% over 2001) it is still generally a very small penetration rate in Croatia. We are therefore continuously investing in the popularization of the Internet and the introduction of new services in both the access and content areas. The number of visits to the most visited Croatian portal HTnet, increased by 54.6%.

In order to create new values for the Company and for our shareholders, in addition to growth orientation we continue with successful transformation projects in the direction of improved efficiency, utilization of synergic possibilities and redistribution of responsibilities. We have transferred the mobile communications operations and have also begun a regional transformation on a large scale. By the new regional organization, the entire territorial system of managing business through more than 20 telecommunications centres has been replaced by a management system through 4 newly founded regions. We are continuing to outsource non-core activities of the Company, thus proving our strategic orientation toward our primary core telecommunications business activity. A new organization has been implemented within HT consisting of 3 business units and 4 corporate units, and key management has been appointed. We are naturally preparing intensively for the market deregulation in the fixed network; and in parallel we are conducting several projects aimed at improvement of sales and client relationships.

We have also improved internal processes especially in the areas of finance and control, HR management, and procurement and stock management.

Taking all this into consideration, I may conclude that the Company's operations were successful in 2002 and that results were very good. The set strategy has been achieved decisively and in line with the plan. We are very optimistic about the future and convinced that we will achieve all our goals and that our business results will be even better.

Finally, I would like to thank all our customers and business partners as well as our shareholders for their confidence in us. I also thank the members of the Management Board and Supervisory Board and all the employees of HT for the efforts they have put in and for their contribution to our mutual success.



Ivica Mudrinić
President of the Management Board of Croatian Telecom

Board and CEO

Prepared for the utmost successes.

Monitoring the world telecommunication trends HT, has placed itself side by side with the leading European as well as world telecommunication operators. This is the result above all of the impeccable co-ordination among the employees as well as business decisions oriented to fulfilling the strategic goals of the company.

IVICA MUDRINIĆ

Chairman of the Board and CEO

Born in 1955. Graduated in electrical engineering from Toronto University 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 (Croatian Post and Telecommunication), and since the separation of Posts and Telecommunications on 1 January 1999 he has been President of the HT Management Board.

WOLFGANG BREUER

Member of the Management Board and Chief Operating Officer Mobile

Born in 1964. He obtained a bachelor's and master's degree at the University of Telecommunications in Köln. In 1999 he also completed the Management Development Program at the University of Michigan in the USA. He began his professional career in 1990 as Project Manager in the German company Leybold AG Hanau. In 1992, he transferred to T-Mobile, a German mobile communications operator owned by DT, where he worked as the GSM Project Manager (1995-1996), the Key Account Manager in the Sales Department (1995-1996) and the director of Network in PTC, the Polish mobile operator (1996-1999). At the beginning of the year 2000, he became Country Manager of Croatia and Poland within the structure of the international divisions of DT, thus responsible for the whole region of Central Europe within the same division in 2001. During 2001 he was a Member of the Supervisory Board of Croatian Telecom. In July 2002 he was appointed Member of the Management Board and Chief Operating Officer Mobile.

WOLFGANG LISTER

Member of the Management Board and Chief Operating Officer for Fixed Network

Born in 1952. In 1999 he obtained MBA degree from the GSBA University in Zurich, Switzerland. He spent most of his professional career working at Deutsche Telekom, his last position there being the one of Executive Vice-President for Marketing and Sales at the Augsburg/Kempten branch office. He came to Croatian Telecom in November 2001 when he was appointed Member of the Management Board and Chief Operating Officer for Fixed Network. He is directly in charge of its management, development and operation, which includes product management and development, marketing, sales, telemarketing services and billing, supervision, management and maintenance of the fixed network.

INGO RICHTER

Member of the Management Board and Chief Financial Officer

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 as a Member of the Board and Chief Financial Officer.

EUGEN SCHULZ

Member of the Management Board and Chief Services Officer

Born in 1953 and obtained a degree in Mathematics and Economics at the Albertus-Magnus University in Köln. He gained a lot of business experience and knowledge in managing people, processes and projects from working in leading positions in companies such as Bundesanstalt für Strassenwesen (1981. -1982.), Dresdner Bank AG (1982. -1990.), KPMG Peat Marwick (1990. -1994.), DT Mobilnet GmbH (1994. -2001.). He successfully created, developed and implemented strategies, structure and processes of information technologies as well as having masterfully managed various functions such as Customer Care, Billing and Product Development. 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.

BRANKA SKARAMUČA

Member of the Management Board and Chief Human Resources Officer

Born in 1958, in 1982 she graduated Psychology at Faculty of Philosophy, University of Zagreb. She begun her professional career 1985 in Personnel Department at Pliva where she stayed until 1989; from September 1989 to March 1993, served as a manager in Marketing Department, and then returned to Human Resources as Director of HR - Croatia and later as Director of Pliva Group HR until February 2002. In 2002, came to Hrvatski Telekom as a member of the Management Board and Chief Human Resources Officer. She is member of the Croatian and American Association of HR Managers.

IVANA ŠOLJAN

Member of the Management Board and Chief Operating Officer Online

Born in 1964 and studied Comparative Literature and English at the Faculty of Philosophy and a Stage Production at the Academy of Dramatic Arts at the University of Zagreb. She began her professional career as a producer of commercial and musical videos (SIM Studio, 1983-1987), radio shows (Radio 101, 1987-1988) and the director of Z3 production television (1988-1990). At the beginning of 1990 she worked for the American company Mooney LeSage LTD and later returned to working in the media as Director of Marketing and Sales (Globus, 1991-1992), a member of the OTV Board (1993-1995), Director of Strategic Planning and Development (EPH, 1995- 1999) and the founder and director of Klik Multimedia (January-March 2000). After having sold Klik Multimedia to Iskon Internet, she became a member of the Iskon Board and was responsible for Sales, Marketing and Program. She then transferred to Management Board of Hrvatski Telekom.

Report on the Performed Supervision of Managing of Business Operations of the Company in the Year 2002

Pursuant to Article 263 paragraph 3 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, A. Hebranga 32-34, (hereinafter: HT d.d.), comprised of Mr. Hans Albert Aukes, Chairman of the Supervisory Board, Ms. Ana Hrastović, Deputy Chairman of the Supervisory Board, Mr. Milan Stojanović, Mr. Ivan Milić, Mr. Siegfried Pleiner, Dr. Martin Walter, Mr. Michael Günther, Mr. Herbert Müller and Mr. Antun Rimac, representative of HT's employees, Members of the Supervisory Board, submits to the General Assembly the following

REPORT on the Performed Supervision of Managing of Business Operations of the Company in the Year 2002

Deutsche Telekom AG (hereinafter: DTAG) as a Strategic Partner of HT d.d. on 25 October 2001 purchased a further 16% of the registered ordinary shares thus acquiring the majority ownership with a 51% ownership stake.

The Supervisory Board is represented with five members from Deutsche Telekom, three members of the Republic of Croatia and one member has been appointed by the Workers' Council of HT d.d.

The Management Board of HT d.d. has been operating in its full capacity of seven members since 1 September 2002. Changes in the composition of the Management Board were as follows: In April 2002, the Supervisory Board appointed Mr. Ivica Mudrinić President of the Management Board of HT d.d. and Chief Executive Director for an additional mandate commencing with 1 January, 2003. Ms. Branka Skaramuča was appointed Member of the Management Board and Chief Human Resources Officer with a mandate commencing 1 June 2002. In July 2002, the Supervisory Board accepted the resignation of Mr. Karim Jadavjee Khoja, Member of the Management Board and Chief Operating Officer Mobile and appointed Mr. Wolfgang Breuer a new Member of the Management Board and Chief Operating Officer Mobile. Ms Ivana Šoljan was appointed Member of the Management Board and Chief Operating Officer On-line commencing as of 1 September 2002. In December 2002, the SB accepted the resignation of Mr. Ingo Richter, Member of the Management Board and Chief Financial Officer, and at the same time, Mr. Werner Hohenadel was appointed Member of the Management Board and Chief Financial Officer with a mandate commencing as of 1 March 2003.

During 2002, the composition of the Supervisory Board of the Company was changed in the following way: By the Decision of the Workers' Council, Mr. Antun Rimac was appointed Member of the Supervisory Board as of 28 May 2002.

Mr. Wolfgang Breuer was released from the duty of Member of the Supervisory Board of HT d.d. as of 18 July 2002.

The aforementioned departure opened a vacancy for the position of a Member of the Supervisory Board to which position the General Assembly of HT d.d. elected Mr. Siegfried Pleiner on 16 October 2002.

During 2002, five Supervisory Board meetings were held. Supervisory Board fulfilled supervisory and controlling tasks over the managing of business affairs and other functions as in accordance with the provisions of the Croatian Companies Law, Articles of Association of the Company and the By-laws on the Work of the Supervisory Board.

The Supervisory Board rendered out of meeting resolutions by casting votes in writing by facsimile on the following occasions:

- Giving prior approval to the Management Board regarding the structure of the project "Transfer of Mobile Business to HT's Subsidiary" and the foundation of the shell company in which mobile business was transferred
- Giving approval to the Management Board for passing the "Regulations on Organization of HT – Hrvatske telekomunikacije d.d." (following prior approval of the concept of reorganization of the Company in the regions)

In accordance with the Articles of the Association, the Supervisory Board established an Audit Committee, comprised of 2 Members of the Supervisory Board (Mr. Hans Albert Aukes, president of the Committee and Ms. Ana Hrastović, member of the Committee). In assistance with the work of the said Committee, the Supervisory Board passed a decision to put Mr. Joachim Kregel, Group Auditing KR, DT as an expert and counselor responsible for expert support to the President of the Audit Committee.

The Supervisory Board Audit Committee held two meetings, the 1st in August 2002 and the 2nd in November 2002, and discussed several issues in particular: new SEC Rules, financial reporting and accounting issues, external audit issues and HT's internal audit procedure and results. The Supervisory Board was regularly informed about the results of the Committee meetings.

Apart from the regular reports by the Management Board and the mutual consultations on business development, the issues which were discussed in greater detail and which received prior approval of the Supervisory Board are listed as follows:

- Reorganization of the Company – amendments and supplements to the Regulation on Organization of HT d.d. in regard to separation and establishment of the Corporate Departments of Security and Internal Audit, and establishment of regional organization in such a manner that the presence of the Company in the regions of the Republic of Croatia is ensured by the transformation of the former Telecommunication Centers and their grouping within the framework of four regions with administrative and operative headquarters in the cities of Zagreb, Split, Rijeka and Osijek, respectively
- The advance pay off of 10 loans contracted with Siemens d.d. Company whose total unpaid value as at 31 May 2002 amounted to 267,000,000 kunas
- The Yearly Business Plan for 2003 and the Three Year Strategic Plan for 2003-2006
- Transfer of business of the mobile communications from HT d.d. to HT Mobile Communications LLC effective as of 1 January 2003
- Approval of transactions and passing all necessary resolutions and documents for completion of the transfer of business, especially the Business Transfer Agreement, increasing share capital of the HTM shares in kind and investment in capital and giving loans with the intention of paying the purchasing price and financing needs for the working capital of HTM
- Appointment of Members to the Management Board of HT Mobile Communications LLC and appointment of Members to the Supervisory Board of HT Mobile Communications LLC
- Transfer of GSM and NMT concessions from HT d.d. to HT Mobile Communications LLC

The Supervisory Board has determined issues for which the Management Board shall need the prior approval of the Supervisory Board, as follows:

- The acquisition or disposition of an interest in any company, business, or line of business operated by or to be operated by HT or any of its affiliates, whether by subscription, purchase or sale of securities, assets, partnership interests or otherwise
- Entry into any joint venture, partnerships or similar agreement.

The Supervisory Board supported the Management Board in their efforts to protect the investments of HT in Bosnia and Herzegovina.

The Management Board submitted to the Supervisory Board statutory financial reports and the Annual Report together with the Report on the Performed Audit within the legally prescribed deadline, as well as the proposal of the decision on the utilization of profit of the Company. The above documents are approved by Supervisory Board.

Management Board delivered to the Supervisory Board the Report on Related Parties Transaction (Dependent Company Report) made in compliance with Articles 474 and 497 of the Companies Law as well as on the principles of conscientious and truthful accountability.

The overall relationships of affiliated companies, according to the opinion by the Management Board of HT, within the business (calendar) year of 2002, as well as in the last quarter of 2001, realized by contractual affiliating and undertaken legal actions, have been within the scope of ordinary business and entrepreneurial relationships, standard conditions and by applying regular prices. HT as a dependent company, did neither suffer any damage in the aforesaid relationships nor has been in an unfavorable business position. The Management Board stated that the Company, according to the circumstances in the moment of undertaking of legal affairs and actions stated in this report, had received a respective counter-action, without any damage for the Company. The Company's Auditor, Ernst & Young d.o.o. Zagreb, reported on the results of its audit and issued the following audit certificate: "We have examined management's assertions, included in the attached Management's Report on Related Party Transactions (Related Party Report) for the period from 25 October 2001 until 31 December 2002.

Management is responsible for HT – Hrvatske telekomunikacije d.d.'s ("HT") compliance with requirements of Article 497 of the Croatian Company Law. Our responsibility is to express an opinion on management's assertion about HT's compliance based on our examination.

Our examination was conducted in accordance with International Standards on Auditing and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

Limitation of scope

1. We have not been able to obtain specification of the salary costs charged by Deutsche Telekom AG ("DT AG") for its employees that worked in HT during 2001 and 2002 under the Technical Service Agreement ("TSA") and, consequently, we have not been able to determine the appropriateness of the daily fee applied by DT, as determined in the TSA. DT AG explained that it was unable to provide this information due to requirements of German Legislation.

In our opinion, except for the adjustment that might be required in respect of the paragraph above, management's assertions provided in the Related Party Report for period from 25 October 2001 until 31 December 2002 are fairly stated, in all material respects."

After having considered the Report on Related Parties Transaction, the Management Board statement and the results of auditor's examination, the Supervisory Board states that the Company, according to the circumstances in the moment of undertaking of legal affairs and actions stated in this report, received a respective counter-action, without any damage for the Company.

The Supervisory Board, after reviewing audited statutory financial report for the year 2002, hereby confirms that the Company operated in the year 2002 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 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 2002, corresponds to the results of business operations and 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 was regularly reporting on: the business operations of the Company, the status of assets and liabilities and income, organizational and other changes in connection with the management of the Company to the Supervisory Board.

The Supervisory Board analysed the progress of the planned results and implementing basic goals of the business politics of the Company for 2002.

Upon analysing the Report of the Management Board, and following the movement of the financial indicators of the business, it has been evaluated that the parameters planned in business have been achieved and the business of the Company was successful.

Apart from the financial results for 2002, the Supervisory Board analysed and agreed with the business politics for the Company for 2003.

Further to the afore-mentioned, the Supervisory Board proposes to the General Assembly to accept the Report on the Performed Supervision of Managing the Business Operations of the Company in the year 2002.

President of the Supervisory Board
Hans Albert Aukes

Supervisory Board of Hrvatski Telekom on Decembar 31st, 2002.

Hans-Albert Aukes
President

Ana Hrastović
Vice president

Michael Günther
Member

Ivan Milić
Member

Herbert Müller
Member

Siegfried Pleiner
Member

Antun Rimac
Member

Milan Stojanović
Member

Martin Walter
Member

HT in 2002

Always at the disposal of its clients.

By pointing out the family values, HT has always tried to take the best care of all of its clients, respecting and understanding their specific needs. The business unites are organised to be immediately at the disposal to the different groups of clients and to offer them a new, easy-going life style.

Management 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.

Total Operating Income / Revenue / Revenue by business segment

HT's total operating income amounted to HRK 7,704 million in 2002. This represents an increase of 9.4% compared with the year 2001.

HT's consolidated revenues grew by 11.1% over the previous year, reaching HRK 7,544 million in 2002. This growth was primarily due to an increase of 24.2% in revenues from mobile network services, a 44.8% rise in revenues from Internet, as well as an 7.1% growth in fixed telephone revenues. The increase from mobile network services and internet services reflects HT's strategy of maintaining its leading market position and strong focus on its customer base.

Fixed telephone network

In 2002 revenue from HT's fixed telephone network increased by 7.1% to HRK 5,052 million from HRK 4,717 million in 2001. The switch to ISDN was the main contributor to the increased portion of fixed telephone network revenue, and consequently one of the leading causes of the increase in overall revenues. (Total fixed telephony revenues also included revenues from carrier services.)

Mobile networks

The revenue from mobile networks increased by 24.2% to HRK 2,078 million in 2002 from HRK 1,673 million in 2001. (Mobile revenues do not include revenue from mobile-terminated calls.)

This impressive growth in revenue was achieved by an even closer relationship with customers, which was rewarded by a strong increase of customer numbers. HT's objectives of retaining the loyalty of its customers led to the introduction of new services (SMS, mobile e-mail, MMS, WAP, GPRS, m-parking and ticketing) The Company's customer care orientation was further reinforced by the setting up of HT's regional sales offices.

Internet services

Revenue from Internet increased by 44.8% to HRK 139 million in 2002 from HRK 96 million in 2001. This significant increase of revenue was largely due to the introduction of a wide range of services, both access and content based: ADSL service in two packages (Optima and Ultra), VPN-DI service, new Office packages and Financial service, as well as to the network upgrade. These improvements have led to a significant increase in the number of HT Internet customers. The HTnet portal is the most visited portal in Croatia. The number of visits increased by 54.6% during 2002 and reached more than 33 million page views per month.

Total operating costs

Material costs

The main driver in the cost of raw materials, consumables and merchandise in 2002 was the purchase prices of merchandise sold (HRK 383 million as against HRK 268 million in 2001). This is due to the increase in the number of pre-paid customers and the related sale of handsets. The cost of raw materials and supplies decreased due to improvements in the procurement process. The increase in expenses for domestic telecom services purchased in 2002 was triggered by higher interconnection costs with the domestic provider (VIPnet) brought about by higher overall penetration and traffic. This was offset by a decrease in international telecom service costs purchased.

Personnel Costs

As a result of outsourcing and early retirement programs completed mostly in Q4 2002, the year-end number of employees has significantly decreased. As a result of these year-end activities, the average monthly number of employees for 2002 remained nearly the same as the average monthly number of employees for 2001, which resulted in an insignificant difference in total personnel expenses. This slight increase in personnel costs was driven mainly by early retirement severance payments, and an affirmative change in the educational mix of employees (in favor of highly educated ones).

Depreciation, amortization and write-down of fixed assets increased by 8.2% in 2002 compared with 2001. The increase in depreciation and amortization is the result of new investment and additions to fixed assets in 2001 and during 2002.

Other costs

While continuing to invest in HT employees, security and training, the most significant increase in other costs was due to increases in consulting fees and costs due to the disposal of fixed assets. Consulting fees increased in 2002 as a consequence of several projects initiated in HT to improve business processes (SAP R/3, ITB2, Legal Separation of Business Unit Mobile and others) and also represent efforts to secure HT's market shares in a competitive environment (customer care).

Tax

The increase in current tax is mainly due to the significant increase in income before tax and the release of revaluation reserves due to NMT impairment. From an amount of HRK 548 million, HRK 180 million comes from the release of revaluation reserves. From that amount, HRK 50 million represents taxes related to the release of mobile revaluation reserves. The remaining HRK 270 million was "ordinary" profit (income) tax. The difference between the current tax expense of HRK 548 million and income tax expense represents the release of deferred tax liability. Deferred tax liability was recorded in respect of revaluation that resulted from the FA appraisal in 2001.

Profitability

Net profit for the year 2002 totaled HRK 1,864 million. Net profit in the year 2002 should not be compared with and measured against the net profit realised in 2001 since the 2001 results were heavily influenced by the impacts of the asset appraisal process that was undertaken that year. The significant increase in assets and issued capital and reserves on the one hand, and the increase in costs due to write-downs on the other hand, makes ineffectual the significant changes in the profit and loss account for 2001 in comparison with the results of 2002.

Balance Sheet

Assets
Total assets amounted to HRK 15,257 million at the end of 2002, which represented a 9.4% increase compared with year-end 2001. The growth of assets was primarily caused by the considerable increase in current assets. The driver of growth in current assets was the increase of financial assets as well as cash and cash equivalents.

Current assets
The value of total current assets reached HRK 4,618 million from HRK 3,337 million in 2001. The increase in total current assets resulted primarily from increased time deposits, increased investments and improved cash balances.

Equity and Liabilities
The large increase in shareholder equity and reserves (HRK 1.8 billion) was the result of the increase in net profit.

Changes in retained earnings and revaluation reserves were interrelated and should be viewed combined.

Revaluation Reserves
The release of revaluation reserves to retained earnings corresponded to the difference between depreciation based on the revalued carrying amount of property, plant and equipment on the one hand, and depreciation based on the original cost of the property, plant and equipment on the other.

Other Reserves
Other reserves were the result of certain adjustments made to the assets and liabilities transferred from HPT as at 1 January 1999 to reflect certain assets and liabilities that were not adequately incorporated within the net assets transferred as at 1 January 1999. These adjustments primarily related to an appropriation of HRK 370,000 thousand that was declared on 1 June 1999 in respect of the 1998 profits of the former HPT and an additional amount payable in respect of taxes in the amount of HRK 239,892 thousand which resulted from the review subsequently performed by the tax authorities.

Long term liabilities
Long-term liabilities decreased by a total of 29,4% as of 31 December 2002 compared with year-end 2001. As of 31 December 2002 the Company provided HRK 75 million for a number of legal actions and claims that it considered would probably be brought in the future against HT. This increase represented a 44,2% increase compared with year 2001.

Deferred tax liability represented deferred taxation (20%) in respect of the revaluation reserve that was caused by the Fixed Assets appraisal during 2001. The decrease of the deferred tax liability was related to a portion of the deferred tax liability paid during 2002. HRK 45 million related to the release of the revaluation reserve in respect of the transfer of Mobile business. The significant decrease in long-term liabilities was due to the early repayment of supplier loans and the ordinary amortization of other long-term loans.

Current liabilities
Current liabilities decreased significantly due to the decrease of short-term borrowings and the current portion of long-term loans mainly caused by the early repayment of supplier loans. Income tax payable rose by 47,6% due to a better overall performance resulting in increased income before tax.

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 which 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.

Human Resources Development

Key achievements:
- Improvement of the hiring process,
- Development of guidelines for educational procedures,
- Construction of a career planning system,
- Formation of a variable system of pay.

The current orientation of the company is based on the new business environment: the coming deregulation, the requirements of the market and of industry.

The human resources strategy is in line with the overall strategy of the Company, in which all existing activities are revised and new changes are introduced onto the market.

The process of permanent development of organization and business efficiency in HT is reflected in the field of the Human Resources Corporate Unit. For more efficient support to the business needs, the Human Resources Corporate Unit has been working since 2002 through two sub-units, which deal with human resources development and management.

As we are aware of our role of business partner, we have directed our key activities in 2002 to developing the knowledge, skills and competence of our employees.

Career page

Changes in market circumstances where our corporation does business require appropriate organizational changes, which entail changes in the relations of employees to their career. The Sub-Unit for Human Resources Development has therefore started to implement the "Career Page" project – one of the first steps to support the building of a career planning system.

The implemented first phase of the project includes the Company's employees who are assigned to work positions requiring a university education. Further developments will include all other employees.

The main goals of the "Career Page" project:

- To balance individual and organizational needs
- To make employees aware of their responsibility for their own development and career
- To provide the managers with employee management and development tools

Candidate selection procedure

Business development requires flexible and team-oriented professionals who are able to creatively integrate multidisciplinary knowledge. The company's value in the domestic labor market is highly rated, so that the number of candidates is always larger than what is needed. One of our priority activities in 2002 was the implementation of a new and efficient selection method for both external and internal candidates.

Internal selection stimulates mobility and professional development of employees and enables appropriate knowledge distribution within the company.

External selection is used to fill those work positions that need specific kinds of knowledge that cannot be found within the company.

Education policy: guidelines for "EDUCA" educational procedures

In order to provide efficient business support, the Corporate Sub-Unit for Human Resources Development introduced several new procedures for the realization of educational activities throughout the Company.

These guidelines provide a framework for identifying, planning and realizing educational activities in HT which:

- Are in line with business needs and requirements,
- Involve less bureaucracy and administration,
- Build valuable relations between employees and the company.

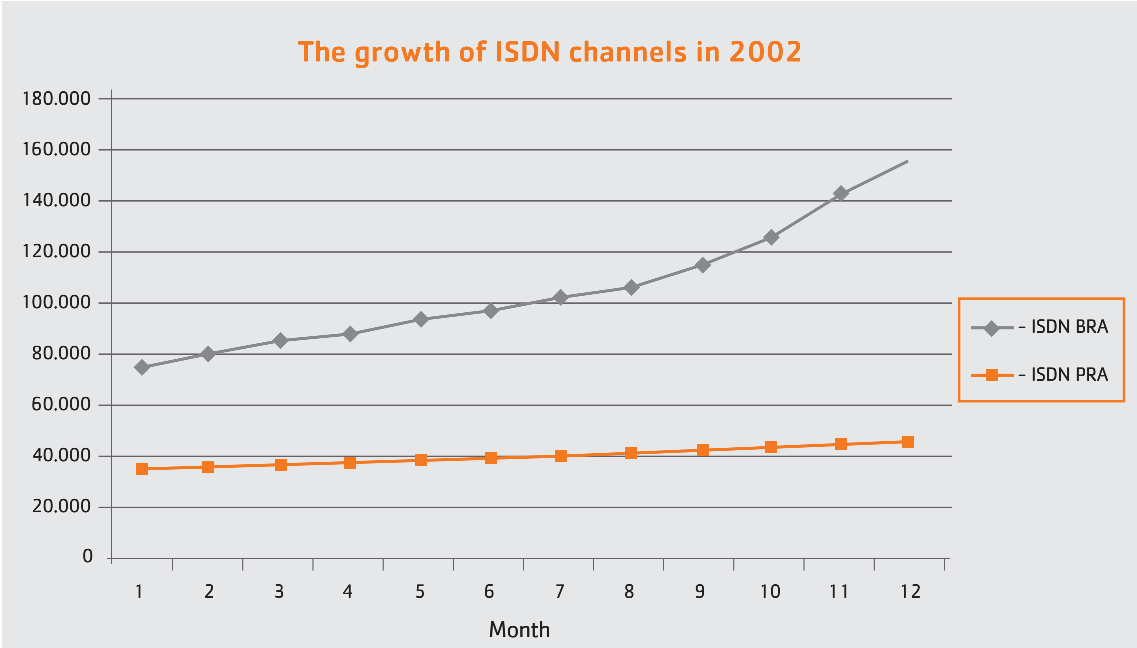
In the framework of the new education policy, human resources have the role of cooperating with the company management to actively develop the long-term knowledge and competence of management and employees and identify strategic priorities in the process of education.

Pilot project: sales rewards

As HT started the transformation from technology orientation to service orientation, there appeared the need for structured and targeted employee rewards for individual or team contributions to the realization of set goals. The business area of sales was identified in 2002 as the most dynamic and the most critical area in the new business conditions. The corporate sub-unit for human resources for sales employees, in the business unit mobile, participated in the creation of a variable system of pay.

Business Unit Fixed

Key achievements in 2002:
– Traffic and revenue increase
– Full network digitalization



The fixed network represents the backbone of HT's business operation. The services offered to the market are divided into three main groups: HTtel (POTS), HTisdn and HTdsl.

The total number of connected mainlines (POTS, ISDN and ADSL) to the HT fixed network as at 31 December 2002 was 1.870.267.

The total revenue for the fixed network increased by 7,1% as compared with 2001. The main reason for the increase of the Fixed BU share in the revenue is the increase of the number of ISDN customers, which consequently means an increase of total revenue. (The total revenue for fixed network telephony includes revenue from carrier services.)

The year 2002 was the last before the start of market deregulation in the fixed network. Therefore the main goal was to prepare for the coming competition, especially in the segment of development of customer relations, development of sales and introduction of new, modern services.

At the end of 2002, all remaining analog PSTN exchanges were shut down or replaced, resulting in the full (100%) digitalization of the entire HT PSTN switching network.

Market approach

The market approach in the fixed network was mainly focused on building the HTtel brand, as the key factor in the preparation for competition. To this effect several communications campaigns were conducted, which resulted in traffic stabilization and increase of brand awareness. Also, actions were carried through for the increase of use of value-added services such as CLIP (calling line identification presentation) or conference calls.

Major efforts were also taken in popularizing the ISDN service, which resulted in 39.146 new ISDN customers (87.969 channels) in 2002 and increased traffic within the ISDN user area.

In 2002, extensive preparations were carried out for a broad commercialization of the HTdsl service which provides HTdsl customers with fast Internet access along with one telephone line used simultaneously. The main goal was first to create knowledge and awareness of HTdsl within HT, which was done at the HTdsl Day for employees, followed by a limited communications campaign. HTdsl is a very important service for the future business operation of HT, because it is the basis of fixed network repositioning from a mainly voice service to a multi-service platform for transmission of voice and multimedia content. Within the scope of preparations for the commercial launch of HTdsl, a complex process of service provision by means of a completely new data base (WWMS) was established.

We also started the experimental phase of providing VPN voice, a value-added service based on the intelligent network (IN) platform. The service is meant for small enterprises with offices at various locations, and for medium and large enterprises and institutions whose private branch exchanges (PBX) are not connected to leased lines. The service enables integration of all the national (and international) locations of a company into a high performance voice network. Depending on the success of the experimental operation, VPN voice will be offered to all key customers.

In 2002, the Fixed BU managed to conclude several major long-term contracts with key customers, the most significant being the ones with Privredna banka Zagreb and the Agrokor Group, for increase of customer loyalty, especially in this important customer segment.

Business Unit Mobile

Key achievements in 2002:
- Number of customers rose by 41.9%
- Introduction of advanced multimedia services and content services
- Final preparations for the spin-off of the Business Unit

The Business Unit Mobile offers the services of the GSM mobile network, providing subscribers with digital services called HTcronet (postpaid) and Simpa (prepaid), and the services of NMT mobile network, providing analog services called HTmobitel.

At the end of 2002, the Business Unit Mobile had more than 200,000 postpaid customers and more than 1,000,000 prepaid customers. Along with voice services and plans for different tariffs adapted to different customer needs, The Business Unit Mobile offers various complementary services, such as messaging (SMS, mobile e-mail, MMS), Internet access via WAP and GPRS, the possibility of payment via mobile phone (m-parking, cinema), information services and several solutions for business customers.

In 2002, the Business Unit Mobile realized around 2.08 billion kuna of revenue from telephone services.
The total revenue of the Business Unit Mobile shows a 24,2% increase over 2001. (Note: the mobile communications revenue item does not include revenue realized from calls terminated in the mobile network.)

The main priorities of the Business Unit Mobile in 2002 were an increase in the number of customers, an increase in market share, the introduction of new services and an increase in sales efficiency.

The total number of customers (postpaid, prepaid, NMT) rose in 2002 by 41.9%, to around 1.24 million.
The total number of postpaid customers is 32,2% higher than at the end of 2001.

Market approach

In 2002, the Business Unit Mobile offered many new services to prepaid and postpaid customers.

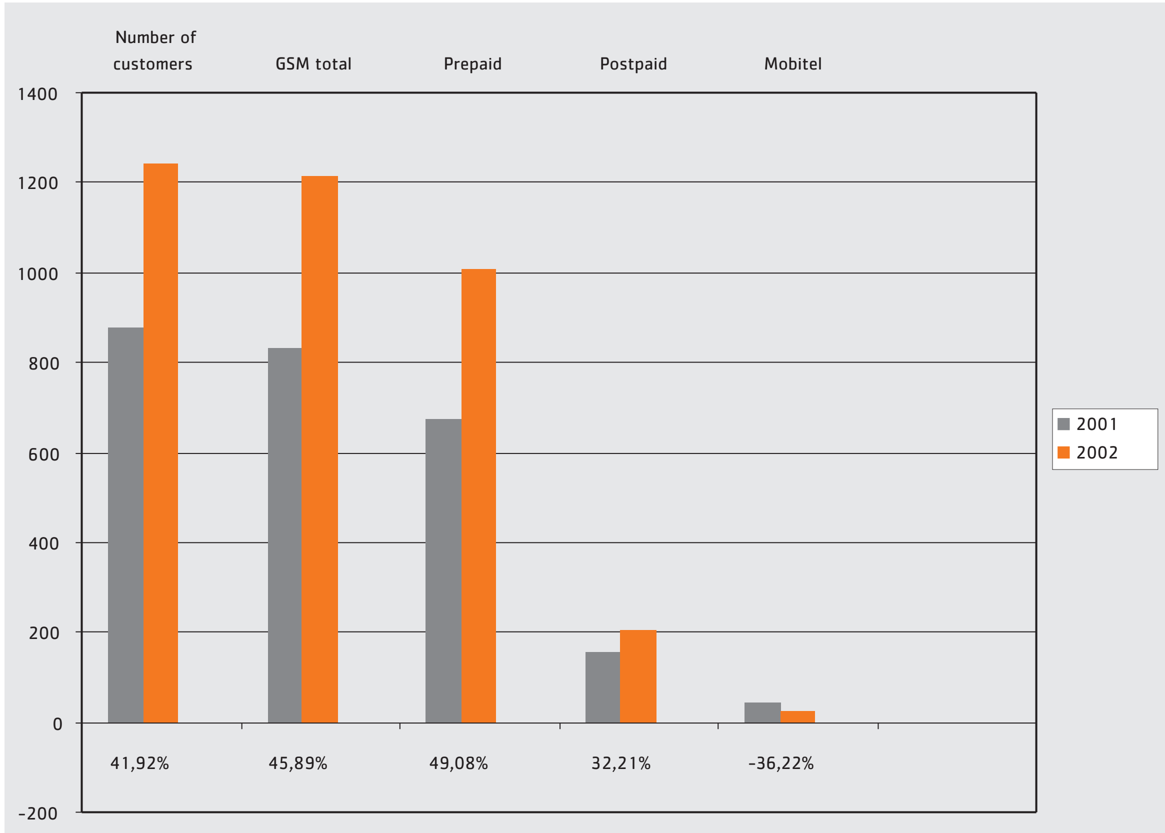
The Business Unit Mobile based the development of its services on current trends in mobile communications, which have significantly increased in the fields of data transfer and content services. Moreover, new services in 2002 had the goal of further adaptation of services to individual needs of customers to increase their loyalty.

One of the major events in the prepaid segment was the introduction of new Simpa tariffs (S1, S2, S3) with different conditions, such as SMS prices, best-tariff (favorite) number, and the introduction of Simpa loyalty program. Pre-paid customers can also use services like "Moj portal" (My Portal) with the benefit of a free e-mail address and administration of various information services. All prepaid customers may also use GPRS services via the GPRS Freesurf tariff option.

In the postpaid segment, the Business Unit Mobile offered the MMS service (Multimedia Messaging Service) and "Moj portal" for HTcronet customers. The main benefit of "Moj portal" for postpaid customers, aside from the free e-mail address and administration of various SMS services, is the "bill viewer", providing customers with the opportunity to check their updated costs on a daily basis.

In order to increase customer loyalty, the Business Unit Mobile improved the program of retention and loyalty "+club" and introduced the program "minimum contract duration" (MCD).

Business customers are offered VPN M services (customers with more than 4 active voice MSISDN), VPN partner services and Mobile Office as the solution for mobile communications of business customers with direct access to company LAN.



In 2002, many new services were offered to both prepaid and postpaid customers, such as various SMS services (SMScard, SMSquiz, SMSkino, SMSparking, SMSchannel) and SMS games.

Development of organization and processes

The number of business customers in 2002 rose by more than 185% compared with the end of 2001. The Business Unit Mobile increased the service quality level in the field of calls (90% successful calls).

In 2002, the Business Unit Mobile implemented the Environment Management System in line with ISO 14001.

One of the most important achievements of the Business Unit Mobile in 2002 was the successful completion of the process of spin-off of the Business Unit Mobile as a separate legal entity. The basic benefits from the spin-off for HT and its shareholders are the following:

- Higher value of mobile communications business
- More efficient business of mobile communications of HT
- Supporting and enabling synergies between various activities of HT, including the mobile communications business
- Further development of HT as the provider of all services

Business Unit Online

Key achievements in 2002:
– A 55,1% increase in the number of dial-up customers
– A fortified leading position in the market
– The HTnet portal has become the most visited portal in Croatia

Hrvatski Telekom has been using the HTnet brand to provide Internet access services for residential and business customers since November 1995. HTnet is available via dial-up access and via leased line. Internet access services have been deregulated since their introduction, with active competition entering the market in 1998.

Business Unit Online had 370,013 dial-up customers and 377 leased line subscribers on 31 December 2002. This is a rise of 55,1% and 44,0% respectively in comparison with the same period last year.

HTnet subscribers make up 74,5% of the dial-up market and 54,2% of the leased line market in Croatia (based on revenue estimates). Total dial-up penetration in Croatia in December 2002 was 16.3%, while leased line penetration was 1.5%.

Dial-up access	End 2002
Market penetration	16.32%
Inhabitants between 10 and 74 years of age (thousands)	3,695.40
Market size (thousands)	603.59
Market growth	0.07%
HTnet market share	74.53%
Market share growth	0.11%

Leased line access	End 2002
Market penetration	1.50%
Number of companies (thousands)	58.83
Market size (thousands)	0.880
Market growth	2.33%
HTnet market share	42.84%
Market share growth	0.66%

Key priority: market development
Htnet's subscription revenue rose by 21,6%, while traffic revenue rose by 70,6%. (Remark: Revised financial reports for 2002 in note 3, revenue by business segments, include Internet and data service revenue as a single figure.)
Htnet's dial-up traffic increased by 51,2% in 2002, while the number of dial-up customers rose by 55,1%.

The internet market depends mostly on personal income levels and PC ownership, increasing acceptance of the Internet as a part of daily life and greater confidence in the business use of Internet as a tool for communication and marketing. BU Online, which is the clear market leader, directs its efforts at increasing the usage and overall popularity of Internet in Croatia.

New services and content development
HT introduced various new services of access and content in 2002:

Two ADSL service packages (Optima and Ultra) and VPN-DI service have been offered,

HTnet had 23,000 web hosting users in 2002.

HTnet transmitted 59 multimedia events live, enabled the download of 96 GB of data from the server through 27,943 streaming data downloads, enabled radio and TV streaming transmissions of 25 radio and TV stations and 4 web cameras with a total air time of 58,991 hours.

HTnet is the most visited portal in Croatia. The number of visits rose by 54,6% in 2002, with more than 33 million visits per month.

HT will continue developing portal content, multimedia services and business applications, improving service quality, safety and reliability, building a high-quality customer database to make the best solutions customized to specific customer segments or specific customers, and enabling e-commerce for B2B and B2C markets.

"Hoću Internet"
The activities to make the Internet more popular in Croatia included the "Hoću Internet" campaign for the fourth time, a campaign which started in November 2002 and continued in 2003. The "Hoću Internet" campaign features a very favourable offer of a multimedia PC set and Internet access, including the option of paying in instalments. It provides Croatian citizens with a turnkey package that immediately gives them Internet access and usage.

Financial statements as at 31 December 2002 and auditors' report

Bingo!

To be a member in the HT team means to know how to win and to appreciate it. The team spirit and the interconnection of all the segments with the goal of providing the best services to its clients is the guaranty of success as well as the pledge for the future of the company.

Corporate profile

History and incorporation

HT - Hrvatske telekomunikacije d.d. ("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 the Separation of Croatian Posts and Telecommunications into Croatian Posts and Croatian Telecommunications (Official Gazette No. 101/98), 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.
Pursuant to the terms of the of Law on Privatisation of Hrvatske telekomunikacije d.d.(Official Gazette No. 65/99 and No. 68/01), 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 is appointed by the Workers' Council of HT d.d.

Principal activities

The principal activities of HT d.d. and its subsidiary HT mobilne komunikacije d.o.o.(together "HT Group" or "the Group") comprise the provision of telecommunications services, and the design and construction of communications networks in the Republic of Croatia.
The Group's operations are performed through its three lines of business organized in two business units (fixed network and On-line) and one separate legal entity HT mobilne komunikacije d.o.o. supported by four corporate units (CEO corporate unit, Financial corporate unit, Human resources corporate unit and Corporate services unit). During 2002 the Group's regional presence was organized through twenty Telecomm canters. However, in the future, the approved four regions concept shall be implemented.
In addition to basic fixed line telephony, including local, long distance, and international calls, the Group operates analogue (NMT) and GSM mobile telephone networks called MOBITEL and CRONET, respectively, and Internet (HTnet). Other services include data (Leased lines, ATM, X25 and Frame relay) and telegraph services.

Significant events

During 2002 the Management Board of HT d.d. made a decision to transfer the mobile telecommunication business to a wholly owned subsidiary, HT mobilne komunikacije d.o.o. ("HTmobile"). HTmobile was registered at the Commercial Court on 6 November 2002 and a cash contribution was made by HT d.d. in the amount of HRK 24,800.00. This initial investment was increased on 30 December 2002 through a further cash contribution in the amount of HRK 80,307,470.78 and a contribution in kind in the amount of HRK 1,397,667,729.22 so that the total interest of HT d.d. in this wholly owned subsidiary amounts to HRK 1,478,000,000.00. Of this amount, HRK 60,230,603.08 remained unpaid as at 31 December 2002.
HTmobile commenced its commercial activities on 1 January 2003, until when GSM and NMT services were provided by HT d.d. The headquarters of HTmobile is in Zagreb, Hebrangova 32-34.

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 2002, HT d.d. experienced continued 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 an increase in subscriber numbers and partly as a result of tariff rebalancing performed in August 2001. Revenues from telecommunication services for 2002 were HRK 7,544 million, of which HRK 5,052 million relate to fixed line telephony, HRK 2,078 million to mobile telephony, and HRK 414 million to data, Internet and other services. Profit from ordinary activities before tax for the year was HRK 2,357 million. The net profit for the financial year amounted to HRK 1,864 million. Long and short-term borrowings amounted to HRK 81 million at year end. Cash balances at 31 December 2002 amounted to HRK 1,436 million.
HT d.d.'s operating profit in 2001 was significantly impacted by revaluation, as HRK 1,142 million of the write down of assets was reported against the year 2001 results.
HT d.d.'s goal is to create value for its customers, shareholders and partners while being socially responsible towards its employees and the society. HT d.d. will continue to strive to be at the forefront of technology development in telecom industry and invest in its employees' development while securing stable revenue growth and constantly improving its efficiency.
Sub-ordinate legislation passed in the second half of 2001 provides for the right of HTmobile to be awarded the UMTS concession under prescribed conditions and for a fixed concession fee.

Directors and management

Supervisory Board

The members of the Supervisory Board who served during 2002 and subsequently are as follows:

Hans-Albert Aukes	President	From 24 October 2001
Ana Hrastović	Deputy president	From 24 October 2001
Wolfgang Breuer	Member	Until 18 July 2002
Martin Walter	Member	From 24 October 2001
Michael Günther	Member	From 24 October 2001
Herbert Müller	Member	From 24 October 2001
Ivan Milić	Member	From 24 October 2001
Milan Stojanović	Member	From 24 October 2001
Antun Rimac	Member	From 28 May 2002
Siegfried Pleiner	Member	From 16 October 2002

Management Board

The members of the Management Board who served during 2002 and subsequently are as follows:

Ivica Mudrinić	President	From 28 December 1998
Ingo Richter	Member	From 1 March 2000
Wolfgang Lister	Member	From 24 October 2001
Karim Jadavjee Khoja	Member	Until 19 July 2002
Eugen Schulz	Member	From 24 October 2001
Wolfgang Breuer	Member	From 19 July 2002
Branka Skaramuča	Member	From 1 June 2002
Ivana Šoljan	Member	From 1 September 2002

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 a going concern basis unless it is inappropriate to presume that the Company will continue in business in the foreseeable future.

The Management Board must also ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Law (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 28 February 2003.
HT – Hrvatske telekomunikacije d.d.
Hebrangova 32 - 34
10000 Zagreb
Republic of Croatia
On behalf of the Management Board,

I. Mudrinić
28 February 2003
2003President of the Management Board

Auditors' 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") and its subsidiary (together "the Group"), as at 31 December 2002, as set out on pages 6 to 44 prepared under the accounting policies set out on pages 16 to 23. 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 the 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 the Company and the Group 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.

Opinion

In our opinion, the financial statements as at 31 December 2002 give a true and fair view of the financial position of the Company and of the Group, of the results of their 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).

Ernst & Young d.o.o. Zagreb
Republic of Croatia
Zagreb, 9 December 2002
Zagreb, 28 February 2003

Consolidated HT Group income statement

For the year ended 31 December

	Notes	2002 HRK millions	2001 HRK millions
Operating income:			
Revenue	3	7,544	6,788
Own costs capitalised	4	49	167
Other income		111	89
Total operating income		**7,704**	**7,044**
Material costs			
a) Cost of raw materials, consumables and merchandise		(578)	(561)
b) Other material costs and costs of services	5	(1,592)	(1,514)
Staff costs			
a) Gross wages and salaries		(948)	(919)
b) Taxes, contributions and other payroll costs		(330)	(305)
Depreciation, amortisation and write down of fixed assets	6	(1,307)	(1,208)
Write down of fixed assets from appraisal		–	(1,142)
Write down of current assets		(98)	(125)
Other costs	7	(679)	(646)
Total operating costs		(5,532)	(6,420)
Operating profit		**2,172**	**624**
Financial income		212	99
Financial expense		(42)	(64)
Share of profits of associates	12	15	10
Provision against carrying value of associates	12	–	(156)
Profit before taxes from ordinary activities		**2,357**	**513**
Current tax expense	8	(548)	(359)
Deferred tax benefit	8	55	156
Net profit for the year		**1,864**	**310**

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

HT d.d. income statement

For the year ended 31 December

	Notes	2002 HRK millions	2001 HRK millions
Operating income:			
Revenue	3	7,544	6,788
Own costs capitalised	4	49	167
Other income		111	89
Total operating income		7,704	7,044
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Current tax expense	8	(548)	(359)
Deferred tax benefit	8	55	156
Net profit for the year		**1,864**	**310**

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

Consolidated HT Group balance sheet

31 December 2002

	Notes	2002 HRK millions	2001 HRK millions
ASSETS			
A. Fixed assets			
Intangible assets	9	441	140
Property, plant and equipment	10	9,621	10,133
Investments in associates	12	56	41
Other investments	13	403	150
Long-term receivables		42	43
Deferred tax asset	8	55	79
Total fixed assets		**10,618**	**10,586**
B. Current assets			
Inventories	14	149	159
Debtors	15	1,334	1,205
Investments	13	256	90
Time deposits	30 b)	1,443	974
Cash and cash equivalents	30 a)	1,436	909
Total current assets		**4,618**	**3,337**
C. Prepayments and accrued income – current assets		**21**	**22**
D. TOTAL ASSETS		**15,257**	**13,945**

Consolidated HT Group balance sheet (continued)

31 December 2002

	Notes	2002 HRK millions	2001 HRK millions
EQUITY AND LIABILITIES			
A. Issued capital and reserves			
Subscribed share capital	21	8,189	8,189
Legal reserve	22	97	82
Other reserve	23	(796)	(796)
Retained earnings		1,880	1,267
Revaluation reserve	24	1,964	2,313
Net profit for the year		1,864	310
Total issued capital and reserves		**13,198**	**11,365**
B. Long-term liabilities			
Provisions	20	75	52
Employee benefit obligations	19	99	80
Deferred tax liability	8	491	578
Long-term loans	18	37	294
Other long-term liabilities		24	25
Total long term-liabilities		**726**	**1,029**
C. Current liabilities			
Trade payables and other current liabilities	16	888	918
Income tax payable		211	143
Short-term borrowings and current portion of long-term loans	17	44	276
Total current liabilities		**1,143**	**1,337**
D. Accruals and deferred income – current liabilities		**190**	**214**
Total liabilities		**2,059**	**2,580**
E.TOTAL EQUITY AND LIABILITIES		**15,257**	13,945

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

Signed on behalf of HT d.d. on 28 February 2003

I. Mudrinić

I. Richter

HT d.d. balance sheet

31 December 2002

	Notes	2002 HRK millions	2001 HRK millions
ASSETS			
A. Fixed assets			
Intangible assets	9	329	140
Property, plant and equipment	10	8.335	10.133
Investment in subsidiary	11	1.478	-
Investments in associates	12	56	41
Other investments	13	403	150
Long-term receivables		42	43
Deferred tax asset	8	55	79
Total fixed assets		**10.698**	**10.586**
B. Current assets			
Inventories	14	149	159
Debtors	15	1.334	1.205
Investments	13	256	90
Time deposits	30 b)	1.443	974
Cash and cash equivalents	30 a)	1.416	909
Total current assets		**4.598**	**3.337**
C. Prepayments and accrued income – current assets		**21**	**22**
D. TOTAL ASSETS		**15.317**	**13.945**

HT d.d. balance sheet (continued)

31 December 2002

	Notes	2002 HRK millions	2001 HRK millions
EQUITY AND LIABILITIES			
A. Issued capital and reserves			
Subscribed share capital	21	8,189	8,189
Legal reserve	22	97	82
Other reserve	23	(796)	(796)
Retained earnings		1,880	1,267
Revaluation reserve	24	1,964	2,313
Net profit for the year		1,864	310
Total issued capital and reserves		**13,198**	**11,365**
B. Long-term liabilities			
Provisions	20	75	52
Employee benefit obligations	19	99	80
Deferred tax liability	8	491	578
Long-term loans	18	37	294
Liability to subsidiary	11	60	-
Other long-term liabilities		24	25
Total long term-liabilities		**786**	**1,029**
C. Current liabilities			
Trade payables and other current liabilities	16	888	918
Income tax payable		211	143
Short-term borrowings and current portion of long-term loans	17	44	276
Total current liabilities		**1,143**	**1,337**
D. Accruals and deferred income – current liabilities		**190**	**214**
Total liabilities		**2,119**	**2,580**
E.TOTAL EQUITY AND LIABILITIES		**15,317**	13,945

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

Signed on behalf of HT d.d. on 28 February 2003

I. Mudrinić

I. Richter

Consolidated HT Group cash flow statement

For the year ended 31 December 2002

	Notes	2002 HRK millions	2001 HRK millions
Operating profit		**2,172**	**624**
Depreciation charges		1,307	1,208
Write down of fixed assets		-	1,142
Decrease/(Increase) in inventories		40	(56)
Increase in receivables and prepayments		(128)	(164)
(Decrease)/Increase in payables and accruals		(54)	303
Increase in employee benefit obligations		19	6
Interest paid		(38)	(32)
Net book value of disposed assets		16	48
Own costs capitalised		(49)	(167)
Provisions - non-cash items		23	52
Other non-cash items		-	36
Taxes paid		(480)	(266)
Net cash inflow from operating activities		**2,828**	**2,734**
Cash flows used in investing activities			
Purchase of non-current assets		(1,108)	(1,410)
Proceeds from sale of non-current assets		1	-
Purchase of investments		(1,611)	(1,184)
Proceeds from sale of investments		840	-
Interest received		79	59
Net cash (outflow) from investing activities		**(1,799)**	**(2,535)**
Cash flows from financing activities			
Repayment of long-term borrowings		(502)	(237)
Receipt from long-term borrowings		-	293
Dividends paid		-	(51)
Net cash (outflow)/inflow from financing activities		**(502)**	**5**
Net increase in cash and cash equivalents		**527**	**204**

Analysis of changes in cash and cash equivalents

	Notes	2002	2001
At 1 January 2002/2001		909	705
Net cash inflow		527	204
At 31 December 2002/2001	30 a)	1,436	909

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

HT d.d. cash flow statement

For the year ended 31 December 2002

	Notes	2002 HRK millions	2001 HRK millions
Operating profit		**2,172**	**624**
Depreciation charges		1,307	1,208
Write down of fixed assets		-	1,142
Decrease/(Increase) in inventories		40	(56)
Increase in receivables and prepayments		(128)	(164)
(Decrease)/Increase in payables and accruals		(54)	303
Increase in employee benefit obligations		19	6
Interest paid		(38)	(32)
Net book value of disposed assets		16	48
Own costs capitalised		(49)	(167)
Provisions - non-cash items		23	52
Other non-cash items		-	36
Taxes paid		(480)	(266)
Net cash inflow from operating activities		**2,828**	**2,734**
Cash flows used in investing activities			
Purchase of non-current assets		(1,108)	(1,410)
Proceeds from sale of non-current assets		1	-
Purchase of investments		(1,611)	(1,184)
Investment in subsidiary		(20)	-
Proceeds from sale of investments		840	-
Interest received		79	59
Net cash (outflow) from investing activities		**(1,819)**	**(2,535)**
Cash flows from financing activities			
Repayment of long-term borrowings		(502)	(237)
Receipt from long-term borrowings		-	293
Dividends paid		-	(51)
Net cash (outflow)/inflow from financing activities		**(502)**	**5**
Net increase in cash and cash equivalents		**507**	**204**
Analysis of changes in cash and cash equivalents			
At 1 January 2002/2001		909	705
Net cash inflow		507	204
At 31 December 2002/2001	**30 a)**	**1,416**	**909**

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

Consolidated HT Group statement of changes in equity

For the year ended 31 December 2002

	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 2001	**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	-	-
Appropriation to shareholders	-	-	-	-	(51)	-	(51)
Profit for the financial year	-	-	-	-	-	310	310
Balance as at 31 December 2001	**8,189**	**2,313**	**82**	**(796)**	**1,267**	**310**	**11,365**
Allocation of net income to retained earnings	-	-	-	-	310	(310)	-
Appropriation of net income to legal reserve	-	-	15	-	(15)	-	-
Impairment loss, net of tax effect of HRK 8 million	-	(31)	-	-	-	-	(31)
Depreciation transfer, net of related deferred tax of HRK 79 million	-	(318)	-	-	318	-	-
Profit for the financial year	-	-	-	-	-	1,864	1,864
Balance as at 31 December 2002	**8,189**	**1,964**	**97**	**(796)**	**1,880**	**1,864**	**13,198**

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

HT d.d. statement of changes in equity

For the year ended 31 December 2002

	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 2001	**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	-	-
Appropriation to shareholders	-	-	-	-	(51)	-	(51)
Profit for the financial year	-	-	-	-	-	310	310
Balance as at 31 December 2001	**8,189**	**2,313**	**82**	**(796)**	**1,267**	**310**	**11,365**
Allocation of net income to retained earnings	-	-	-	-	310	(310)	-
Appropriation of net income to legal reserve	-	-	15	-	(15)	-	-
Impairment loss, net of tax effect of HRK 8 million	-	(31)	-	-	-	-	(31)
Depreciation transfer, net of related deferred tax of HRK 79 million	-	(318)	-	-	318	-	-
Profit for the financial year	-	-	-	-	-	1,864	1,864
Balance as at 31 December 2002	**8,189**	**1,964**	**97**	**(796)**	**1,880**	**1,864**	**13,198**

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

Notes to the financial statements

1. Status of HT d.d. and HT Group

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. on 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 Hebrangova 32-34, Zagreb, Croatia.
During 2002 the Management Board of HT d.d. made a decision to transfer the mobile telecommunication business to a newly established wholly owned subsidiary, HT mobilne komunikacije d.o.o. ("HTmobile"). HTmobile was registered at the Commercial Court on 6 November 2002 and a cash contribution was made by HT d.d. in the amount of HRK 24,800.00. This initial investment was increased on 30 December 2002 through a further cash contribution in an amount of HRK 80,307,470.78 and a contribution in kind in the amount of HRK 1,397,667,729.22 so that the total interest of HT d.d. in this wholly owned subsidiary amounts to HRK 1,478,000,000.00. Of this amount, HRK 60,230,603.08 remained unpaid as at 31 December 2002.
HTmobile commenced its commercial activities on 1 January 2003, until when GSM and NMT services were provided by HT d.d. The headquarters of HTmobile is in Zagreb, Hebrangova 32 - 34.

2. Summary of accounting policies

A summary of the principal accounting policies of HT d.d. 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 2002, and as prescribed by the Croatian Accounting Law (90/92) and in accordance with the accounting principles and practices observed by enterprises in Croatia.

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

c) Basis of consolidation
The consolidated financial statements of the Group include HT d.d. and its wholly owned subsidiary, HT mobilne komunikacije d.o.o. All intra-group transactions and balances are eliminated.

d) Changes in presentation of Cash Flow Statement
During 2002, the Company changed the method of presentation of the cash flow statement, and certain changes in the classification of individual line items were introduced in order to improve the presentation of the financial statements. The comparative figures for 2001 have been restated accordingly.

e) Measurement currency
HT d.d.'s financial statements and consolidated financial statements are prepared in HRK. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2002 was HRK 7.11 (31 December 2001 – HRK 8.36) per United States Dollar (USD) and HRK 7.45 (31 December 2001 – HRK 7.37) per Euro. All amounts disclosed in the financial statements are stated in millions of HRK if not otherwise stated.

f) Investment in subsidiary
In the Company's financial statements, investment in subsidiary is stated at cost.

g) Investments in associates
Investments in associated companies (generally investments with an ownership interest of between 20% and 50% 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 previous 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.

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

i) 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 that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The average amortisation period for intangible fixed assets is ten years. The amortisation method is reviewed annually at each financial yearend.

j) 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 professional appraisers as of 1 January 2001. Any increase in the recorded value of property, plant and equipment is credited to the property revaluation surplus, unless, and only to the extent that, 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 the 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 which 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	11 years
Machinery and equipment	5 years
Furniture and vehicles	5 years

Useful lives of newly acquired assets are as follows:

Buildings	18 – 25 years
Machinery and equipment	8 – 10 years
Furniture and vehicles	5 – 10 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.

k) 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 a 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.

l) 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.

m) Receivables

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

n) 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 yearend. 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.

o) 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.

p) 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.

q) Employee benefit obligations

The Company provides defined benefit plans for all employees (see Note 19). 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 the possibility of 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 paid to employees is computed based upon average salaries and an additional amount that depends on age and years of service.

r) Revenue recognition

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

Revenue from fixed telephony includes revenue from installation, monthly subscription and calls placed by fixed line subscribers, as well as revenue from interconnection services for domestic and international carriers.

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

Revenue from Internet and data services includes revenue from leased lines, revenue from Internet subscription and estimated Internet usage revenue, which is initially billed as fixed telephony revenue and reclassified to Internet revenue based on ratios determined by management.

s) 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.

t) 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 in the amount of the proceeds received net of transaction costs.

u) Investments
In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Company adopted the accounting policy for recognition and measurement of financial instruments 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 if 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 if contract terms do not allow their 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 the 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.

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

w) 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.

x) 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.

y) 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 (the Group and the Company)

a) Revenue - by business

	2002 HRK millions	2001 HRK millions
Revenue from fixed telephony	5,052	4,717
Revenue from mobile telephony	2,078	1,673
Revenue from Internet and data services	349	353
Other revenue	65	45
	7,544	**6,788**

b) Revenue – by geographical area

	2002 HRK millions	2001 HRK millions
Republic of Croatia	6,706	5,916
Rest of the World	838	872
	7,544	**6,788**

The total number of employees as at 31 December 2002 was 10,307 (2001: 11,053).

4. Own costs capitalised (the Group and the Company)

HT d.d. has changed its method of presentation of own costs capitalised in respect of self-constructed property, plant and equipment. Until 1 January 2002, the Company expensed materials used for self-constructed assets and recognised income from own costs capitalised. During 2002 materials used were directly capitalised as property, plant and equipment. The value of materials directly capitalised during 2002 was HRK 105 million.
This reclassification had no impact on net profit for 2002.

5. Other material costs and costs of services (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Domestic interconnect – fixed telephony	426	367
International settlements- fixed telephony	317	418
Advertising costs	210	258
Maintenance services	213	116
International settlements - GSM	96	83
International settlements – leased lines	29	33
International settlements – Internet	29	27
Domestic interconnect - GSM	31	21
Rent	60	25
Other costs	181	166
	1,592	**1,514**

6. Depreciation, amortisation and write down of fixed assets (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Depreciation	1,158	1,116
Amortisation	55	23
Write down of excessive spare parts	-	69
Impairment loss	94	-
	1,307	**1,208**

7. Other costs (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Education and consulting costs	220	195
Daily allowances and other costs of business trips	37	37
Travel allowances	38	37
Bank charges, membership and other fees	81	63
Loss on disposal of fixed assets	66	19
Security costs	21	19
Contract workers	14	12
Expense related to employee benefit obligations (Note 19)	47	38
Provision for charges and risks (Note 20)	23	52
Other operating charges	132	174
	679	**646**

8. Taxation (the Group and the Company)

a) Tax on profit on ordinary activities

	2002 HRK millions	2001 HRK millions
Current tax expense	548	359
Deferred tax benefit	(55)	(156)
Total income tax	**493**	**203**

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

	2002 HRK millions	2001 HRK millions
Profit on ordinary activities before taxation	2,357	513
Income tax at 20%	471	103
Tax effects of income not taxable in determining taxable profit:		
Dividends received	(6)	(4)
Tax effects of expenses that give rise to temporary differences not recognised as deferred tax assets:		
Provision for obsolete inventories	2	25
Impairment losses on investments	-	31
Provision for bad debts	20	30
Tax effects of expenses not deductible in determining taxable profit:		
Entertainment expenses	2	2
Other non-deductible expenses	4	16
Taxation	**493**	**203**

The deferred tax benefit of HRK 55 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 79 million) and to the release of the part of the deferred tax asset recognised as a result of the fact that part of the write down of the property, plant and equipment was not tax deductible at the time of revaluation (HRK 24 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.

Components of deferred tax assets and liabilities are as follows:

	Asset		Liability	
	2002	2001	2002	2001
	HRK millions	HRK millions	HRK millions	HRK millions
Property, plant and equipment write down	55	79	-	-
Property, plant and equipment write up	-	-	(491)	(578)
At 31 December	**55**	**79**	**(491)**	**(578)**

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 was not tax deductible in 2001. Of this amount, HRK 120 million became tax deductible in 2002, and the remaining HRK 275 million 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 recorded 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, as the revalued assets are depreciated.

The deferred tax liability recognised directly in equity during the period is as follows:

	2002	2001
	HRK millions	HRK millions
1 January	578	-
Property, plant and equipment write up	-	655
Depreciation transfer from revaluation reserves	(79)	(77)
Release related to the impairment loss recognised on previously revalued assets (Note 10)	(8)	-
31 December	**491**	**578**

9. Intangible assets

	HT Group		HT d.d.	
	2002	2001	2002	2001
	HRK millions	HRK millions	HRK millions	HRK millions
Cost				
At 1 January	248	208	248	208
Additions	356	40	356	40
Disposals	-	-	(131)	-
At 31 December	**604**	**248**	**473**	**248**
Accumulated amortisation				
At 1 January	108	85	108	85
Amortisation for the year	55	23	55	23
Disposals	-	-	(19)	-
At 31 December	**163**	**108**	**144**	**108**
Net book value				
At 1 January	140	123	140	123
At 31 December	**441**	**140**	**329**	**140**

The carrying value of the GSM licence as of 31 December 2002 is HRK 67 million (2001: HRK 77 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. The disposal of the Company's intangible assets relates to its investment in its new subsidiary. The cost of invested intangible assets was HRK 131 million and related accumulated amortisation was HRK 19 million, resulting in a net book value of HRK 112 million (see Note 11).

10. Property, plant and equipment

Property, plant and equipment are stated at revalued amounts. In accordance with this policy, independent valuations will be performed periodically and professional appraisers as of 1 January 2001 performed the first valuation. 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 has been no 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.

10. Property, plant and equipment (continued)

HT Group	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
Cost or valuation					
At 31 December 2001	6,188	3,866	263	1,118	11,435
Additions	18	-	-	777	795
Transfers	396	731	36	(1,163)	-
Disposals	-	(68)	(15)	-	(83)
At 31 December 2002	6,602	4,529	284	732	12,147
Accumulated depreciation					
At 31 December 2001	488	574	37	203	1,302
Charge for the year	449	672	37	-	1,158
Impairment losses	-	133	-	-	133
Transfers	30	1	2	(33)	-
Disposals	-	(13)	(4)	(50)	(67)
At 31 December 2002	967	1,367	72	120	2,526
Net book value					
At 31 December 2001	5,700	3,292	226	915	10,133
At 31 December 2002	5,635	3,162	212	612	9,621

HT d.d.	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
Cost or valuation					
At 31 December 2001	6,188	3,866	263	1,118	11,435
Additions	18	-	-	777	795
Transfers	396	731	36	(1,163)	-
Disposals	(182)	(1,698)	(24)	-	(1,904)
At 31 December 2002	6,420	2,899	275	732	10,326
Accumulated depreciation					
At 31 December 2001	488	574	37	203	1,302
Charge for the year	449	672	37	-	1,158
Impairment losses	-	133	-	-	133
Transfers	30	1	2	(33)	-
Disposals	(9)	(537)	(6)	(50)	(602)
At 31 December 2002	958	843	70	120	1,991
Net book value					
At 31 December 2001	5,700	3,292	226	915	10,133
At 31 December 2002	5,462	2,056	205	612	8,335

Included within assets under construction are fixed asset spare parts of HRK 261 million (2001: HRK 324 million), net of a provision of HRK 119 million (2001: HRK 193 million). 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 does it have any material idle property, plant and equipment.

Impairment loss

During 2002, HT d.d. performed an impairment review of its property, plant and equipment and recognised an impairment loss related to assets used for analogue mobile telephone services (NMT services) in the amount of HRK 133 million. Of that amount, HRK 31 million (net of HRK 8 million of deferred tax) was recognised through equity as a decrease in revaluation reserves, and HRK 94 million was reported within depreciation, amortisation and write downs of fixed assets (Note 6). The recoverable amount of NMT assets was calculated based on their value in use.

Disposal of property, plant and equipment

The disposal of the Company's property, plant and equipment primarily relates to the investment in its new subsidiary through contribution in kind.

The revalued cost value of invested property, plant and equipment was HRK 1,821 million and related accumulated depreciation was HRK 535 million, giving a net book value of HRK 1,286 million (see Note 11).

Fully depreciated assets

The gross carrying value of fully depreciated property, plant and equipment still in use as at 31 December 2002 was HRK 157 million.

11. Investment in subsidiary (the Company)

During 2002 the Company established a subsidiary, HT mobilne komunikacije d.o.o. (HTmobile). The subsidiary was established with the aim to transfer the mobile telecommunication business from HT d.d. to HTmobile with effect from 1 January 2003. The initial cash contribution of HRK 24,800.00 was paid on 6 November 2002 followed by a further cash contribution of HRK 80,307,470.78 and a contribution in kind in the amount of HRK 1,397,667,729.22 registered on 30 December 2002, resulting in a total investment of HRK 1,478,000,000.00. From a subsequent cash contribution, HRK 20 million has been fully paid and the remaining HRK 60 million will be paid over a period of five years and is consequently reported as liability to subsidiary in the Company's financial statements.
Of the HRK 1,398 million contributed in kind, HRK 112 million relates to invested intangible assets (see Note 9) and HRK 1,286 million relates to invested property, plant and equipment (see Note 10).

12. Investments in associates (the Group and the Company)

Investments in associates comprises:

	2002 HRK millions	2001 HRK millions
HPT d.o.o. Mostar	21	20
Eronet d.o.o.	35	21
At 31 December	**56**	**41**

HT d.d. has the following associates incorporated in the Republic 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:

	2002 HRK millions	2001 HRK millions
Cost and net book value		
At 1 January	41	187
Share of profits	15	10
Current year provision for impairment	–	(156)
At 31 December	**56**	**41**

13. Other investments (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Available-for-sale investments - non-current	403	150
Total non current investments	**403**	**150**
Available-for-sale current investments	256	50
Held-to-maturity investments - current	–	40
Total current investments	**256**	**90**

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

Issuer	Interest rate	Maturity	2002 HRK millions	2001 HRK millions
Government Agency for Savings Insurance and Bank Restructuring	8.375%	19 December 2005	41	41
Government Agency for Savings Insurance and Bank Restructuring	8%	19 December 2003	40	40
Government Agency for Savings Insurance and Bank Restructuring	8.375%	18 December 2005	63	–
Government of Croatia	6.5%	20 September 2004	–	38
Government of Croatia	6.875%	14 December 2008	52	–
Croatian Institute for Health Insurance	8.5%	19 July 2004	198	–
			394	**119**

The remaining HRK 9 million (2001: 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 money market funds of Zagrebačka Banka d.d., Privredna Banka d.d., Euroinvest ICF and Creditanstalt Investment Bank.

14. Inventories (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Merchandise	119	133
Other	30	26
	149	**159**

15. Debtors (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Trade debtors	1,188	985
Other debtors	146	220
	1,334	**1,205**

16. Trade payables and other current liabilities (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Trade payables	351	358
VAT and other taxes payable	96	55
Payroll and payroll taxes	55	105
Accrued liabilities	334	346
Other creditors	52	54
	888	**918**

17. Short-term borrowings and current portion of long-term loans (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Bank loans	-	38
Supplier loans	44	238
	44	**276**

HT d.d. has several long-term unsecured loan agreements with its domestic and foreign suppliers totalling HRK 16 million and EUR 3 million and USD 5 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 2002 are to be repaid over the next 1 to 5 years. The fair value of these liabilities is not materially different from the carrying value recognised.

18. Long-term loans (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Supplier loans	37	294
	37	**294**

Long-term loans are supplier loans that represent the long-term portion of the unsecured supplier loans discussed in Note 17.

19. Employee benefit obligations (the Group and the Company)

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 dependant 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 2002.

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

	2002 HRK millions	2001 HRK millions
Present value of funded defined benefit obligations	235	246
Unrecognised actuarial gains and losses	(124)	(152)
Unrecognised past service cost	(12)	(14)
Net liability	**99**	**80**

Pension expense comprises the following:

	2002 HRK millions	2001 HRK millions
Current service cost	20	15
Interest expense on obligations	17	15
Net actuarial losses / (gains) recognised	-	-
Amortisation of past service cost	1	1
Amortisation of loss	9	7
Total pension expense	**47**	**38**

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

	2002 HRK millions	2001 HRK millions
Net liability, beginning of year	80	74
Net expense recognised in the income statement (Note 7)	47	38
Payments made under scheme	(28)	(32)
Net liability, end of year	**99**	**80**

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

	2002. godina %	2001. godina %
Discount rate (p.a.)	7.0	7.0
Wage and salary increases (annually)	5.0	5.0

20. Provisions (the Group and the Company)

As at 31 December 2002 the Company has provided HRK 75 million (2001: HRK 52 million) for several legal actions and claims that management has assessed as likely to be asserted in the future against HT. The increase of HRK 23 million relates to new legal claims. There were no used or reversed amounts during 2002.

21. Share capital (the Group and the Company)

Authorised, issued, fully paid and registered share capital.

	2002 HRK millions	2001 HRK millions
81,888,535 ordinary shares of HRK 100 each	8.189	8.189

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

22. Legal reserves (the Group and the Company)

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 the share capital of the Company.

23. Other reserves (the Group and the Company)

Other reserves are the 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 relate 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.

24. Revaluation reserves (the Group and the Company)

	2002 HRK millions	2001 HRK millions
Balance as at 1 January (for 2001 before revaluation)	2,313	-
Revaluation of property, plant and equipment	-	3,275
Deferred tax liability	-	(655)
Release of revaluation reserves to retained earnings (net of deferred tax)	(349)	(307)
Balance as at 31 December	**1,964**	**2,313**

The release of revaluation reserves to retained earnings in the amount of HRK 318 million (net of HRK 79 million of deferred tax) 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 10. The remaining release in the amount of HRK 31 million (net of HRK 8 million of deferred tax) relates to impairment loss recognised on previously revalued assets.

25 Commitments (the Group and the Company)

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

	2002 HRK millions	2001 HRK millions
Current year expense	60	29

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

	2002 HRK millions	2001 HRK millions
Within one year	43	28
Between 2 and 5 years	87	44
Greater than 5 years	26	18

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

b) Capital commitments
As at 31 December 2002, HT d.d. was committed under contractual agreements to capital expenditures amounting to approximately HRK 1,400 million (31 December 2001 – HRK 858 million).

26. Contingencies (the Group and the Company)

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 2002, 31 December 2001, 31 December 2000, 31 December 1999 and 31 December 1998 and the current taxation amounts due at 31 December 2002, 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 against the Company. 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 formation of the former HPT s p.o. 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 for other specified events.
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 from 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 and which will need to be refunded in the future are immaterial in the context of these financial statements.

d) Employee legal cases
There are currently a number of legal cases taken against the Company by its employees. Management's current estimate of the maximum potential liability is accrued for in the financial statements. However, there is not reliable evidence that Management could use to estimate the number and amount of additional legal cases that can be expected, as it is possible that more employees will file law suits for unpaid vacation bonus, Christmas bonuses, etc.

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

	2002 HRK millions
Amount of guarantee in respect of associate (EUR 13.8 million)	102.0
Amount paid by the associate during 2001 and 2002 (EUR 9.1 million)	(67.2)
Amount of the outstanding guarantee (EUR 4.7 million)	34.8

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

27. Balances and transactions with related parties (the Group and the Company)

HT d.d. is a joint stock company which operates in Croatia in the telecommunications market. As a result of HT d.d.'s strategic position within the Croatian economy, a substantial portion of its business is transacted with the Croatian Government, its departments and agencies and companies owned by the Croatian Government.
The transactions specified in the table below primarily relate to the transactions with the companies owned by Deutsche Telekom AG (DTAG). The Company enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2002. Further, DTAG provided technical assistance to HT d.d. in the amount of HRK 77 million (2001: HRK 152 million).
HT d.d. provided a guarantee for Eronet d.o.o. as detailed in Note 26 e).
The main transactions with related parties during 2002 were as follows:

		Revenue		Expenses	
		2002	2001	2002	2001
Company	Service	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	International settlements	155	128	54	83
	Intercompany services	-	-	77	152
HPT Mostar, Bosnia and Herzegovina	International settlements	50	45	36	34
DeTeLine, Germany	Intercompany services	-	-	12	-
DeTeMobil, Germany	International settlements	25	23	6	8
Matav, Hungary	International settlements	10	11	8	10
Eronet, Bosnia and Herzegovina	International settlements	7	7	3	2
Max Mobil, Austria	International settlements	8	7	5	3
PTC-ERA, Poland	International settlements	3	5	-	-
Westel 900, Hungary	International settlements	5	4	1	2
Macedonia telecom	International settlements	2	3	5	6
RadioMobil, Czech Republic	International settlements	3	2	1	1
Slovakia Telecom	International settlements	2	2	3	3
MTS, Russia	International settlements	2	1	1	1
EuroTel Bratislava, Slovakia	International settlements	1	1	-	-
Mobimak, Macedonia	International settlements	-	1	-	2
Voicestream	International settlements	-	1	2	2
T-Systems Nova	Intercompany services	-	-	2	-
		273	241	216	309

The balance sheet includes the following balances resulting from transactions with related parties:

		Receivables		Payables	
		2002	2001	2002	2001
Company	Service	HRK millions	HRK millions	HRK millions	HRK millions
Deutsche Telekom AG, Germany	International settlements	145	51	57	38
	Intercompany services	-	-	77	30
HPT Mostar, Bosnia and Herzegovina	International settlements	86	45	73	34
DeTeLine, Germany	Intercompany services	-	-	12	-
Matav, Hungary	International settlements	5	9	5	8
Eronet, Bosnia and Herzegovina	International settlements	2	1	1	-
Westel 900, Hungary	International settlements	-	1	-	-
Macedonia Telecom	International settlements	1	2	2	3
Slovakia Telecom	International settlements	1	1	2	2
DeTe Mobil	International settlements	1	-	1	-
T-mobil Austria	International settlements	1	-	1	-
Orga Karte	Merchandise	-	-	8	-
T-Systems Nova	Intercompany services	-	-	3	-
		242	110	242	115

28. Financial instruments (the Group and the Company)

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 either to manage risk or for speculative purposes.

a) Credit risk

The Company has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics. Company procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.
The Company does not guarantee obligations of other parties except as described in Note 26 e). 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 (see Note 15) 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 to 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 (HRK). Certain assets and liabilities are denominated in foreign currencies which are retranslated at the prevailing exchange rate at each balance sheet date. he resulting differences are charged or credited to the income statement but do not affect short-term cash flows.

29. Service Concession Arrangements

HT d.d. is part to the following concession agreements:

a) Concession Agreement for the performance of public voice services in a fixed network

With this Agreement, the Government grants HT d.d., as the Concessionaire, the right to provide the following services throughout the territory of the Republic of Croatia:
I. Public Voice Services over a Fixed Public Telecommunications Network;
II. International Telecommunications Services;
III. Data Transmission Services;
IV. Domestic and international Leased Line Services;
V. Telecommunications services open to competition in a fixed network in accordance with Article 25 of the Law on Telecommunications.
The Agreement was signed on 22 September 1999, with two amendments dated 30 July 2001 and 17 October 2001.
The Concession is granted for the period of 30 years, and it can be extended under the same conditions. The Agreement conditions may be revised upon the agreement of both parties. The initial Concession fee of 0.1% of the gross annual revenue of HT d.d. realised from licensed services is altered starting from 1 January 2003, according to the Regulation on Concession fees. The new fee is 0,5% of the gross annual revenue.
After the expiry of HT d.d.'s exclusive rights in the fixed network on 1 January 2003, the Concession Agreement is scheduled to undergo changes. HT d.d. has recently submitted an invitation for negotiations to the Government of the Republic of Croatia.
HT d.d. has the right to provide the services under I to V above, but has had, and probably will have again, the obligation to provide Universal services, as determined in Article 20 of the Law on Telecommunications.
The Agreement can be terminated or suspended by the Government of the Republic of Croatia with twelve months notice if HT d.d. fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Law on Telecommunications or of relevant Subordinate Legislation.

The Agreement defines certain network build-out targets which HT d.d. has met as of 31 December 2002, but the Government may set new, reasonably achievable, service quality standards.
Prices for telecommunications services in the markets where the Government has determined that HT d.d. has significant market power in accordance with Article 32 of the Law on Telecommunications are set according to a special pricing regime, determined in the Concession Agreement. This pricing regime is going to be evaluated in the negotiations, and will probably be altered by changes to the Concession Agreement.

b) Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum: GSM and NMT

Pursuant to these Agreements, HTmobile (before 2003 –HT d.d.) has the right to develop and operate telecommunications services with usage of radio frequency spectrum in the global mobile network system (GSM Concession), and the right to develop and operate a network for the provision of NMT telecommunications services (NMT Concession).
These Concession Agreements were first concluded between HT d.d. and Government of the Republic of Croatia. Both contracting parties have subsequently changed. On HT d.d.'s part, due to the spin-off of mobile business unit into a separate legal entity, the Concession Agreements have been transferred to the new company, HTmobile, and signed on 28 January 2003. The other contracting party is now the Croatian Institute for Telecommunications, to which the Government has transferred some of its authority. The newly concluded GSM and NMT Concession Agreements repeal the old ones, concluded between the Government of the Republic of Croatia and HT d.d.
The GSM Concession Agreement lasts for 10 years, and the NMT Concession Agreement lasts for 30 years starting from 16 September 1999.In addition to the initial concession fee paid in amount of HRK 100 million, HT d.d. currently pays an annual concession fee of HRK 4 million for the NMT Concession, and HRK 5 million for the GSM Concession.
HT d.d. also has to pay annual frequency fee of HRK 100 thousand per one duplex channel pursuant to the GSM Concession, and HRK 12 thousand pursuant to the NMT Concession.
Finally, HT d.d. has to pay annual fee of HRK 150 per one mobile radio station (i.e. subscriber) in both GSM network and NMT network. However, HT d.d. has the right to recharge this fee to its subscribers.
According to the Agreement, the Government shall not grant any new concession for the performance of telecommunications services in GSM network in frequency band of 900 MHz before 31 October 2005. In the case that the given frequency band for GSM network reaches its capacity, bids will be invited for DCS 1800 concession but not earlier than 31 October 2003. As an exception to this provision, bids may be invited for DCS 1800 concession in combination with the UMTS concession, even before 31 October 2003.
The Concessionaire has to develop GSM network in such a way that in every moment the network meets certain prescribed quality parameters.
The Telecommunications Council has the right to revoke the Concession if the Concessionaire fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Law on Telecommunications or of relevant Subordinate Legislation.

30. Cash and cash equivalents and time deposits (the Group and the Company)

a) Cash and cash equivalents

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

	HT Group		HT d.d.	
	2002 HRK millions	2001 HRK millions	2002 HRK millions	2001 HRK millions
Cash on hand and balances with banks	1,436	798	1,416	798
Short-term investments	–	111	–	111
Cash and cash equivalents	**1,436**	**909**	**1,416**	**909**

b) Time deposits

Time deposits are accounts that bear interest from 3% to 4.5% and that HT is entitled to withdraw with prior notice. Time deposits are held with the following banks:

	2002 HRK millions	2001 HRK millions
Privredna banka Zagreb d.d. (euro – denominated)	521	516
Privredna banka Zagreb d.d. (in kunas)	20	–
Zagrebačka banka d.d. (euro – denominated)	362	458
Erste & Steiermarkische Bank d.d. (in kunas)	380	–
Hypo Alpe Adria Bank d.d. (in kunas)	85	–
Raiffeisen Bank d.d. (in kunas)	75	–
	1,443	**974**

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