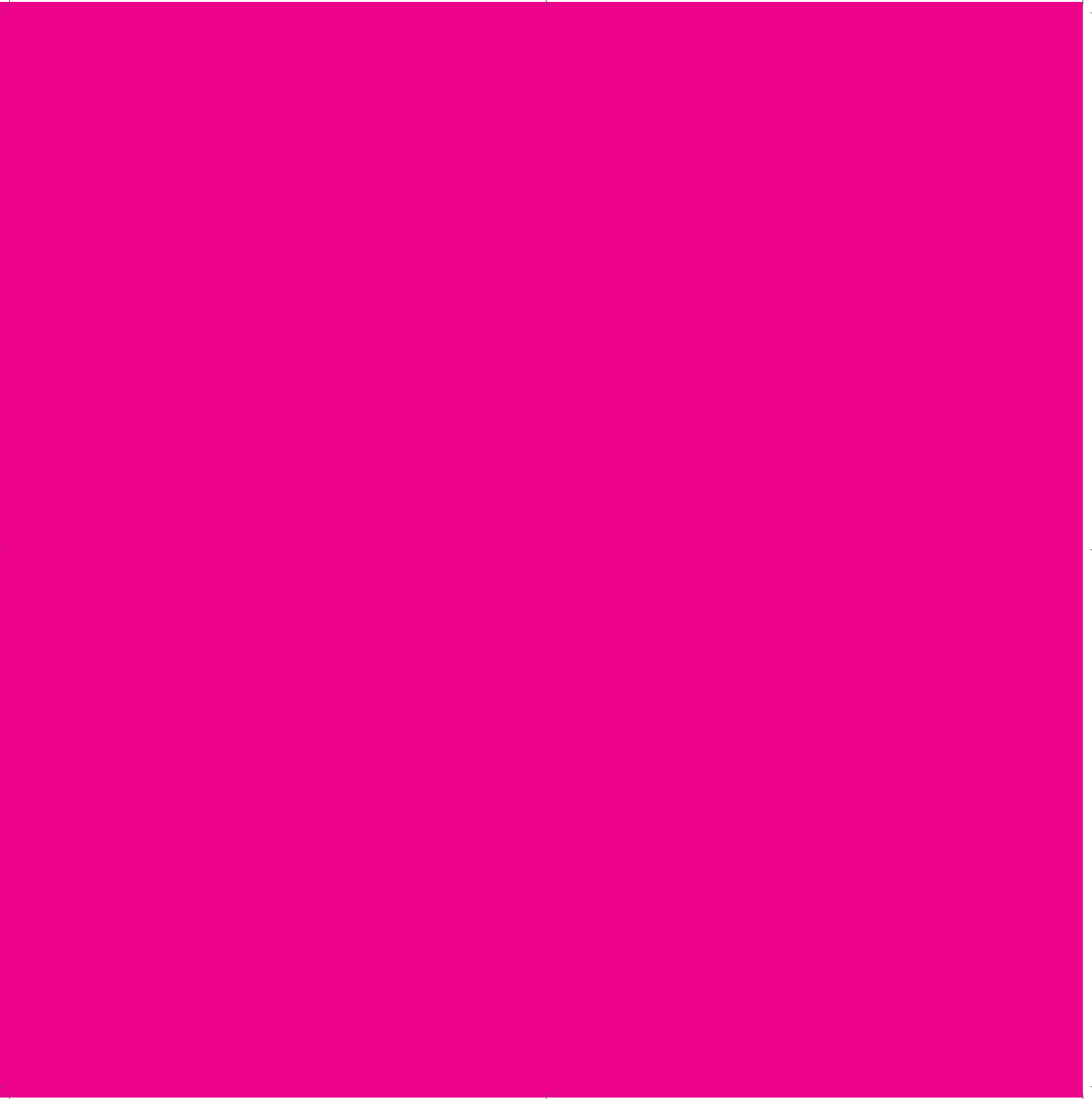


Annual Report 2004



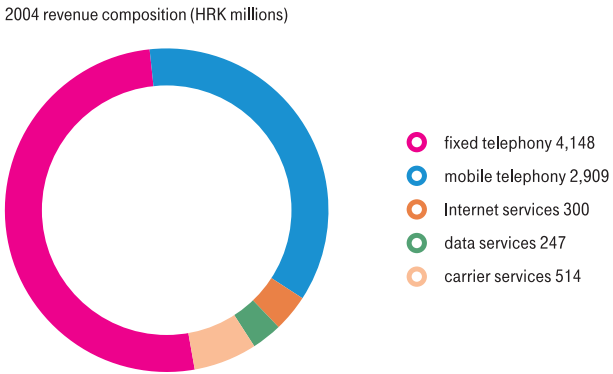
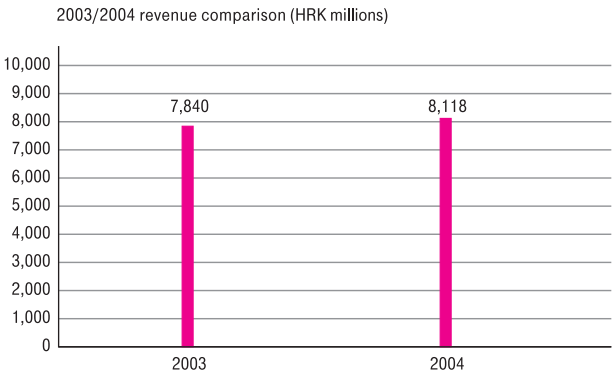
Financial Highlights
Operating Statistics



	2004	2003	2004/2003
Total operating income (in HRK millions)	8,349	8,028	4.0%
Net revenues (in HRK millions)	8,118	7,840	3.5%
EBIT (in HRK millions)	2,111	1,679	25.7%
Net profit for the year (in HRK millions)	1,924	1,488	29.3%
Total assets (in HRK millions)	17,239	16,606	3.8%
Long-term debt (in HRK millions)	639	698	-8.5%
Net debt (in HRK millions)	-6,296	-5,182	-21.5%
Total shareholders' equity (in HRK millions)	12,768	14,517	-12.0%
Operating margin %	26.0	21.4	-
Net income margin %	23.7	19.0	-
ROA %	11.2	9.0	-

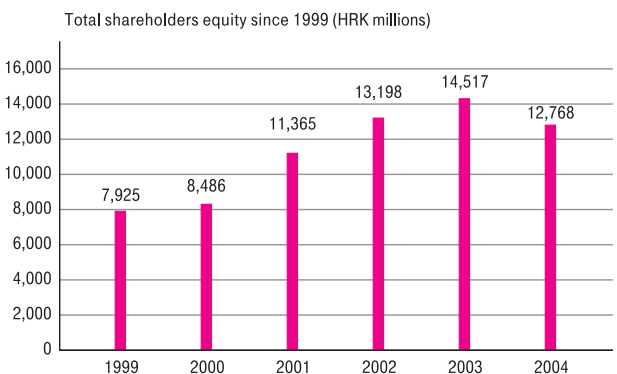
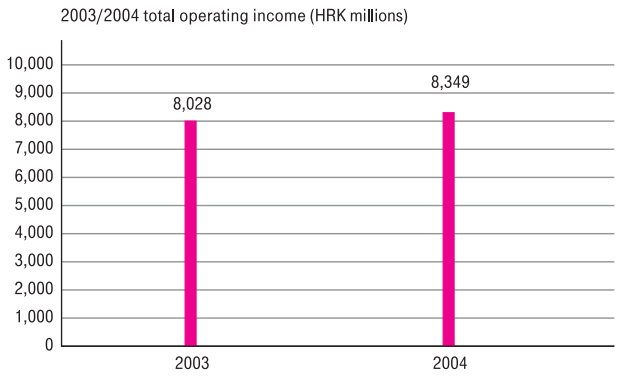
	2004	2003	2004/2003
Total T-Mobile customers (thsd)	1,533.8	1,340.2	14.4%
No. of prepaid customers, T-Mobile	1,233.6	1,087.6	13.4%
No. of postpaid subscribers, T-Mobile	293.4	239.3	22.6%
No. of NMT subscribers, T-Mobile	6.9	13.4	-48.5%
T-Mobile market share (%)	53.7*	52.5	-
Mobile penetration (%)	64.4*	57.6	-
MOU			
(000 minutes of Usage per average subscriber)	1,864	1,651	12.9%
Blended ARPU (in HRK)	157.5	145.7	8.1%

* Vip results estimated for Oct-Dec.



	2004	2003	2004/2003
Total number of mainlines (thsd):	1,676.5	1,684.0	-0.4%
POTS (including FGSM)	1,549.2	1,572.3	-1.5%
ISDN	127.3	111.7	14.0%
ADSL	22.4	2.3	873.9%
Number of channels (including FGSM):	1,887.6	1,871.3	0.9%
Network digitalization (%)	100.0	100.0	-
Fixed-line penetration (%)	37.8	37.8	-
Total traffic (thsd min) of which:	5,912,363	5,983,013	-1.2%
National calls	4,854,452	4,886,898	-0.7%
To national mobile network	730,556	769,322	-5.0%
To VAS	62,837	54,535	15.2%
To international fixed networks	185,662	190,699	-2.6%
To international mobile networks	41,773	42,610	-2.0%
Remaining traffic	37,083	38,950	-4.8%

	2004	2003	2004/2003
Dial-up users (thsd)	562.8	479.4	17.4%
Fixed-line subscribers (thsd)	0.6	0.5	20.0%
VPN points (thsd)	0.1	0.0	-
ADSL users (thsd)	24.3	2.3	956.5%
Internet penetration dial-up (%)	25.9	24.4	-
Total no. of minutes spent online for dial-up customers (thsd min)	2,642,664	2,628,965	0.5%



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Letter of the Chairman of the Board

Dear Shareholders,

I am pleased to present to you our Annual Report for the year 2004, whose contents may be summarized in one basic message: last year our company did successful business and realized its plans. We achieved very good financial results, and are ready to face competition in all segments of business. We are strongly developing broadband Internet access services, and are continuing to contribute to the welfare of society as a whole.

The global telecommunications industry is undergoing large-scale, rapid transformation, and in 2004 the Croatian market as well was characterized by significant regulatory changes tending toward complete liberalization of the market. Thus a concession agreement has been signed with a third GSM operator, two new companies have been granted licenses for fixed telephony services, and word that other companies are set to enter the market arrives almost daily. So from this year forward T-HT will be facing competition even in the last business segment in which it has been the sole service provider. I am deeply confident that very soon we will have an opportunity to demonstrate the quality of our thorough preparations for this moment, and that we will be able to respond to all the challenges which the market offers.

One very important tool for maintaining our dominant market position and strengthening our relationship with customers is, of course, our new corporate identity. By adopting it, we have become part of the global T-family of Deutsche Telekom. As you know, on October 1, 2004 we at Hrvatski Telekom added the letter "T" to our name, thereby becoming T-Hrvatski Telekom, or T-HT. The company's name continues to reflect its national identity, while at the same time being part of one of the world's leading brands, which will allow us to participate in global technology trends and guarantee an identical level of quality and innovativeness for all our products and services. This change of identity at the corporate level was accompanied by the formation of separate brands in two business segments: T-Com

and T-Mobile. T-Com unites the fixed network (HTtel) and Internet access services (HTnet), while the mobile communications company HTmobile has now become T-Mobile. Since 2000, the strategic and partner alliance between Hrvatski Telekom and Deutsche Telekom, one of the leading global telecommunications operators, has resulted in powerful growth at HT. During this time T-HT has become a modern telecommunications company, one which is currently preparing for the even tougher competition that awaits Croatian businesses following European Union accession. Further growth of our business operations and the company's greater competitiveness are now being built precisely upon the advantages of the "T" brand.

We are also creating a cost-effective company, each day finding new ways to do business more economically and efficiently so that, in the end, we will be able to offer the market products and services at competitive prices. The reality is that the greater part of our costs are staff costs, the structure of which must also be constantly adapted to meet new market challenges. All activities relating to company restructuring continue to be implemented gradually, in dialogue with our partners and with maximum consideration for the position of our employees.

All of our stakeholders, from shareholders to employees, can be satisfied with the T-HT Group's financial results. The group's 2004 consolidated revenues totaled HRK 8,118 million, while its profit for the 2004 fiscal year amounted to HRK 1,924 million. Revenues showed growth only in those segments where T-HT is already facing competition. Thus mobile communications were the main factor behind the growth of the group's revenues, with data and Internet services also contributing to a smaller degree.

Mobile network revenues grew by 17.9% over the previous year, reaching HRK 2,909 million in 2004, which also represents the highest relative revenue growth within the T-HT Group. This was largely due to T-Mobile Hrvatska's strong market position, a continuing rise in the number of customers, and the rollout of new services. At the end of 2004 T-Mobile was awarded a concession for third-generation



Letter of the Chairman of the Board

(UMTS) mobile technology in Croatia, thus opening a new chapter in the ongoing development of the domestic telecommunications infrastructure, a precondition without which the overall economy could not keep pace with the rest of the world.

Among the achievements in business segments under the T-Com banner, I would single out the extraordinary success of MAXadsl, T-Com's broadband Internet access service. At the end of 2004 there were 22,000 users of this service, and the trend toward strong growth is continuing. Broadband development is one of the cornerstones of T-Com's strategy, and the considerable investments we have made in the quality, accessibility and capacity of the broadband infrastructure will profit the Croatian economy in general. We have also received strong support from the Government of the Republic of Croatia, thanks to its orientation toward complete Internetization and the introduction of broadband services, in particular the e-Croatia project.

At a time when Croatia is drawing nearer to European integration, we must be strong and prepared, and ensure that all companies in Croatia have the kind of telecommunications and information technology services they need in order to compete. So long as we are prepared for it, integration represents an opportunity, not a threat. It is T-HT's obligation to ensure that, as far as telecommunications is concerned, all Croatian companies have an equal chance to compete and confront these changes - and we believe that this obligation toward Croatia's economy has been met during the past year.

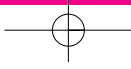
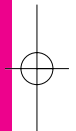
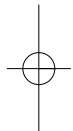
T-HT's many years of successful, stable business and the company's highly liquid position have also enabled us to pay out considerable dividends to our shareholders.

Besides shareholders, the benefits of our success are also enjoyed by the larger environment in which we work. T-HT's social responsibility is expressed through its many long years of ongoing donation and sponsorship activities, in which it has invested considerable financial resources. With regard to donation activities, I would highlight the Net in Schools project (in cooperation with the Ministry of Science, Education and Sport), the Kultura.HR project for preservation of the Croatian cultural heritage, and the humanitarian campaign called "Don't Forget Me" (aimed at helping the elderly and the neglected). Considering the impact that sports have on society as a whole, T-HT became general sponsor of the Croatian Olympic Committee in 2004, thereby promoting the company and tying its brand to the values of the Olympic Games. Croatian skiing would be hard to image without T-Mobile, which can proudly say that it has been with Janica Kostelić almost from the very beginning. As a group, we have supported projects and individuals who embody values that we wish to see ingrained in our corporate culture as well, and we will continue to do so in the future.

In closing, I have only to thank all the employees of the T-HT Group for their contribution to our business results, and to promise shareholders and business partners that our company will continue to do successful business and provide high-quality services.



Ivica Mudrinić
Chairman of the Board



Management board and the CEO

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 radio-televizija (Croatian Radio and Television). From 15th October 1998 was CEO of Hrvatska pošta i telekomunikacije (Croatian Post and Telecommunication), and since the separation of Posts and Telecommunications on 1st January 1999 he has been President of the HT Management Board, today T-Hrvatski Telekom.

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 (1992-1995), 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.

WERNER HOHENADEL

Member of the Management Board and Chief Financial Officer

Born in 1948 in Qierschield, Germany, graduated in electronics from the Saarbruecken School of Engineering.

He gained business experience from working on various positions within Deutsche Telekom, former Deutsche Bundespost. From 2001 he served as a Senior Executive Vice President, Competence Center Controlling in Deutche Telekom Headquarters in Bonn. In December 2002 he was appointed Member of the Management Board of HT and Chief Financial Officer, today T-Hrvatski Telekom. He took over the function on March 1st 2003.

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.

In July 2002 she was appointed Member of the Management Board of HT and Chief Operating Officer Online, today T-Hrvatski Telekom.

MANFRED OHL

Member of the Management Board and Chief Services Officer

He was born in 1947 and graduated at the DBP-academy in Berlin in 1968 in telecommunications engineering. The entire professional career of Mr. Ohl was

built in the telecommunications industry. Among other things, he managed activities related to the network and transmission technologies and also led DT's investment program on introduction of cable network in East Germany. From 1995 to 1998 he was in charge of the DT's office in Frankfurt. In 1998 he went to the Hungarian Matav, where he served as a chief technical officer. In March 2004 he was appointed Member of the Management Board of HT and Chief Services Officer, today T-Hrvatski Telekom. He took over the function on 1st May 2004

BOŽANA CATHY GREGOIRE

Member of the Management Board and Chief Human Resources Officer

She was born in Vinkovci in 1960. Ms. Gregoire finished elementary and high school in Melbourne, Australia. In 1985 she obtained a degree in sales and marketing at the Carleton Univesity, Ottawwa and afterwards a degree in human resources manageemnt at the Seneca College, Toronto.

She has gained great business and organizational experience by working on management positions in several leading North-American and Canadian firms and consultation companies, such as Black Foto Corporation, Omnibus Consulting Inc., Revlon Canada Inc. and Ricoh Canada Inc. where she, as the President of the company, was in charge of human resources and corporate sales and marketing strategy. As of 10th January 2005 she fills the post of the Member of the Management Board and Chief Human Resources Officer in T-HT.



From left to right:

WOLFGANG BREUER, IVANA ŠOLJAN, IVICA MUDRINIĆ, MANFRED OHL, WERNER HOHENADEL, BOŽANA CATHY GREGOIRE



Supervisory Board's Report

Pursuant to Article 263, paragraph 3, and Article 300.c, paragraph 2, of the Company 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, Savska cesta 32, (hereinafter: "Company"), consisting, on the day of issuance of this report, of Mr. Gerhard Mischke, Chairman of the Supervisory Board, Mr. Miroslav Kovačić, Vice-Chairman of the Supervisory Board, Mr. Horst Hermann, Ms. Ana Hrastović, Mr. Zvonimir Puljić, Mr. Siegfried Pleiner, Dr. Ralph Rentschler, Mr. Michael Günther and Mr. Josip Pupiće, representative of the workers of HT d.d., Members of the Supervisory Board, submits to the General Assembly this

REPORT

on performed supervision during the business year 2004 and on results of the examination of the reports related to the closing of the business year 2004

The content of this report includes

- in which manner and to which extent the managing of the company has been monitored by the Supervisory Board during the business year 2004,
- the results of the examination of audited annual financial statements as per 31st of December 2004 together with auditor's report as well as of the proposal for the utilization of the profit
- the results of the examination of the Management Board report on the status of business operations for the business year 2004
- the results of the examination of the report on

relations with the governing company and affiliated companies thereof.

Corporate Profile

Deutsche Telekom AG (hereinafter: "DTAG"), as the Strategic Partner of HT d.d., purchased additional 16% of ordinary registered shares of HT on 25th October 2001 and thus became the majority shareholder with 51% ownership stake.

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

Supervisory Board

During 2004, the composition of the Supervisory Board of the Company changed as follows:

Mr. Joachim Kregel left the Supervisory Board pursuant to his resignation as of 30th of September 2004. On 19th of October 2004, the General Assembly elected Mr. Gerhard Mischke as the Member of the Supervisory Board. Based on the mentioned decision of the General Assembly, the Supervisory Board, at their session held on 22nd of October, elected Mr. Gerhard Mischke as the Chairman of the Supervisory Board after Mr. Horst Herman had resigned from his function of the Chairman of the Supervisory Board. Mr Hermann however remained to be a Member of the Supervisory Board.

On 26th of March 2004, the General Assembly of HT d.d. recalled Mr. Ivan Milić, Mr. Milan Stojanović and Ms. Ana Hrastović from their memberships in the Supervisory Board and elected Ms. Ana Hrastović, Mr. Miroslav Kovačić and Mr. Zvonimir Puljić as Members of the Supervisory Board, whereas their terms of office were to be effective as of the conclusion of that General Assembly session. At the Supervisory Board session held on 17th of June 2004 Mr. Miroslav Kovačić was elected as the Vice-Chairman of the Supervisory Board.

On 28th of September 2004, the Workers' Council recalled Mr. Antun Rimac, the former workers' representative, and on 9th of October 2004 elected Mr. Josip Pupiće to be the representative of workers in the Supervisory Board of HT d.d.

Audit Committee

The composition of the membership of the Audit Committee of the Supervisory Board changed in 2004 as well. On the day of issuance of this report: Mr. Horst Hermann, Chairman, Ms. Ana Hrastović, Member, and Mr. Siegfried Pleiner, are the members of the Committee.

Management Board

On the day of issuance of this report, the Management Board of the Company has six (6) members.

In the following the changes in the Management Board membership are listed:

The Supervisory Board established the termination by agreement of the term of office of Ms. Branka Ska-ramuča, Member of the Management Board and Chief Human Resources Officer, as of 29th February 2004.

During 2004, the Supervisory Board appointed two (2) new members of the Management Board. On 1st of May 2004, Mr. Manfred Ohl was appointed Member of the Management Board and Chief Services Officer. At the session held on 22nd of December 2004, the Supervisory Board appointed Ms. Bozana Cathy Gregoire as Member of the Management Board and Chief Human Resources Officer, and her term of office started on 10th January 2005.

By making appropriate decisions, the Supervisory Board made a temporary redistribution of competences of Members of the Management Board, who, besides their basic functions, have performed tasks from the area of competence of the missing Members of the Management Board, as follows:

The President of the Management Board and CEO was assigned tasks relating to the responsibilities of the Member of the Management Board and COO Fixed, as well as tasks related to customer care, carrier services and human resources. Along with overall responsibility for the Company's business, the President of the Management Board and CEO was authorized to delegate the execution and implementation of the assigned tasks to the res-

pective management of the Company. Activities related to the area of COO Fixed, customer care and carrier services were delegated and, accordingly, assigned to the Member of the Management Board and COO On-line (business ownership). Authorizations and responsibilities related to processes and systems were assigned to the CSO as of the date of his appointment.

After the appointment of the Chief Service Officer as a Member of the Management Board the respective area of responsibility was cleared and the Chief Financial Officer was put in charge for activities related to procurement, warehousing, transportation and real estate.

Performed supervision during the business year 2004

In 2004 there were 6 sessions of the Supervisory Board. The Supervisory Board supervised the managing of Company's business operations and performed other tasks in accordance with the Company Law, the Articles of Association of the Company, and the By-Laws on the Work of the Supervisory Board of the Company.

The Supervisory Board made out-of-session decisions by sending written votes via facsimile regarding the following items:

- Temporary redistribution of responsibilities falling within the competence of the Member of the Management Board and CSO;
- Giving prior approval to the Management Board of

HT d.d. for passing a Decision on granting the approval for obtaining a bank guarantee necessary for HT mobilne komunikacije d.o.o. to take part in public tender procedure for grant of concession for providing public telecommunications services with use of radio frequency spectrum in mobile network in the second generation GSM/DCS1800 system and the third generation UMTS system to the amount of 172 million kuna, as of 14th July 2004, conditionally, in case a decision was passed that HT mobilne komunikacije d.o.o. should compete for a combined UMTS/DCS1800 concession. In case the said decision was not passed, a bank guarantee in the amount of 132 million kuna was to be obtained;

- Giving prior approval to the Management Board of HT d.d. for passing a Decision on granting funds for participation of HT mobilne komunikacije d.o.o. in public tender procedure for grant of concession for providing public telecommunications services with use of radio frequency spectrum in mobile network in the UMTS system and payment of the fee for the concession and use of radio frequency;
- Giving prior approval to the Management Board for passing a Decision on conclusion of a License Agreement between HT d.d. and Deutsche Telekom AG in relation to the rebranding procedure;
- Giving prior approval to the Management Board of the Company for draft amendments to the Articles of Association of the Company with the purpose to bring the provisions of the Articles of Association

Supervisory Board's Report

into conformity with the Company Law. Aside from regular reports of the Management Board of the Company on the results and status of business operations of the Company and joint consultations on business development, the issues below were discussed in more detail, and the Supervisory Board provided respective prior approvals:

- Prior approval for appointments and revocations of the Members of the Management Board and Supervisory Board of the subsidiary T-Mobile Croatia LLC.,
- Audit of important procurement activities from October 2001 to October 2003 in the area of competence of the revoked Member of the Management Board, as well as of main vendors of HT d.d. and respective contracts, key projects and contracts per key projects, implementation of new adequate procurement procedures, procedures and policies related to internal control mechanisms and applicability of standards determined by the SarbanesOxley Act,
- Corporate management and management assessment;
- Status of documentation and ownership over HT d.d.'s infrastructure and network;
- Regulations on telecommunications services and market deregulation;
- Prior approval for rebranding procedure and conclusion of license contracts for the use of the protected T-signs;
- Prior approval for participation in the DTAG's Mid

Term Incentive Plan for 2004, in which the subsidiaries of DTAG also took part;

- Prior approval for a conclusion of following contracts: Frame Contract on the Provision of Services between HT and DTAG, Frame Agreement in relation to Deutsche Telekom's Nominees for Management Board Members at Croatian Telecom and Frame Contracts on Strategic Cooperation between HT d.d. and DTAG and HT d.d. and T-Mobile International AG & Co. KG in order to provide to HT d.d. an opportunity to become a part of global industrial line, including transfer of knowledge and staff, both in mobile communications and fixed network, as well as the realization of synergy potential;
- Broadband spread, tariff options, cost management programs (OPERA) and strategic project programs (DIGIT), headcount planning;
- Prior approval for the Annual Business Plan for 2005 and Three-Year Strategic Plan 2005 - 2007.

In 2004, the Audit Committee of the Supervisory Board held 3 sessions and discussed various issues, especially: financial statements for 2003, processes and results of the internal audits of HT, audits of main vendors and their contracts, audit activities in the business area of the revoked member of the former Chief Service Officer and Management Board member, issues related to the new requirements in the internal control systems according to the Sarbanes-Oxley Act, supervision over the realization of audit measures

and audit reports, and the internal auditing program for 2005.

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

The Management Board within the legal deadlines submitted to the Supervisory Board of the Company the annual financial statements of the Company, the consolidated annual financial statements of T-HT Group and the annual report of the Company for the business year 2004 together with the audit report, the report on the status of the business operations of T-HT Group and HT d.d., and the draft decision on utilization of the profit realized by the Company during the previous business year.

Results of the examination of the Management Board report on relations with the governing company and affiliated companies thereof.

The Management Board submitted to the Supervisory Board the Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Dependant Company), compiled in accordance with Articles 474 and 497 of the Company Law and in accordance with the principles of conscientious and truthful reporting. According to the opinion of the Management Board, apart from certain shortcomings in completeness of

the accounting documents, the relationships of affiliated companies in the business (calendar) year 2004 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

The Company's auditor, Ernst & Young d.o.o. Zagreb, reported on the results of its audit and issued the following confirmation on the audit of the above report:

Report of Independent Accountants

Quote:

'We have examined management's assertions, included in the attached Management's Report on Related Party Transactions (Related Party Report) for the period from 1st January 2004 until 31st December 2004.

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 de-termination on the Company's compliance with speci-fied 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 and employees of its subsidiaries that worked in HT during 2004 under the Frame Contract on the provisions of services between HT - Hrvatske telekomunikacije d.d. and Deutsche Telekom AG and Frame Agreement in relation to Deutsche Telekom's Nominees for Management Board Members at Croatian Telecom (both contracts referred together as "TSA") and, consequently, we have not been able to determine the appropriateness of the fees applied by DT, as determined in the TSA.

In our opinion, except for any adjustment that might be required in respect of the paragraph above, management's assertions provided in the Related Party Report for period from 1st January 2004 until 31st December 2004 are fairly stated, in all material respects.'

unquote

The Supervisory Board has no objections to the results of the auditor's examination of the Management Board Report on relations with the governing company and the affiliated companies thereof. After considering the Management Board Report on relations with the governing company and the affiliated

companies thereof, the statement of the Management Board and the results of the auditor's examination, the Supervisory Board states that the Company, according to the circumstances that were known in the moment of undertaking the legal affairs and actions stated in the Management Board Report on relations with the governing company and the affiliated companies thereof, received a respective counteraction for each legal affair, without any damage to the Company.

Results of the examination of annual financial statements and auditor's report, Management Board Report on the status of business operations of T-HT Group and HT d.d. for the business year 2004 and draft decision on utilization of profit

The Supervisory Board issued an order to Ernst & Young, the Company's auditor, for the examination of annual financial statements of the Company and the consolidated financial statements of the T-HT Group for 2004.

The Supervisory Board, after considering the audited financial statements of the Company and the consolidated financial statements of the T-HT Group for 2004, establishes that the Company acted in the year 2004 in accordance with the law, the acts of the Com-pany and the decisions of the General Assembly, and that the annual financial statements were made in line with the situation in the Company's

Supervisory Board’s Report

ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor’s report on the examination of the annual financial statements of the Company and the consolidated financial statements of the T-HT Group.

The Supervisory Board has no objections to the audited financial statements delivered by the Management Board and gives its approval of the delivered audited financial statements. The said financial statements are considered established by both, the Management Board and the Supervisory Board, and are to be presented to the General Assembly.

The Supervisory Board has considered the report on the status of business operations of T-HT Group and HT d.d. for the business year 2004 and has no objections to the delivered report.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of

the profit realized by HT - Hrvatske telekomunikacije d.d. in the business year 2004 is in accordance with the business results, is in accordance with the business plan for the current year, protects the shareholders’ interests and is in accordance with the positive regulations of the Republic of Croatia. Therefore, the Supervisory Board gives its approval of the delivered proposal of the Management Board on utilization of profit.

The Management Board of the Company regularly informed the Supervisory Board of the Company’s business, status of assets and liabilities, revenue, and organizational and other changes related to the management of the Company’s business operations.

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company’s business policy for the year 2004.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the

financial indicators, it was assessed that the planned business parameters were realized and that the Company’s business was successful.

Aside from the financial results for the year 2004, the Supervisory Board considered and approved the Company’s business policy for the year 2005.

Pursuant to all of the above, the Supervisory Board will deliver to the General Assembly of the Company this Report on Performed Supervision of the Managing of Company’s Business Operations in 2004.

Gerhard Mischke
Chairman of the Supervisory Board

The Economic Environment

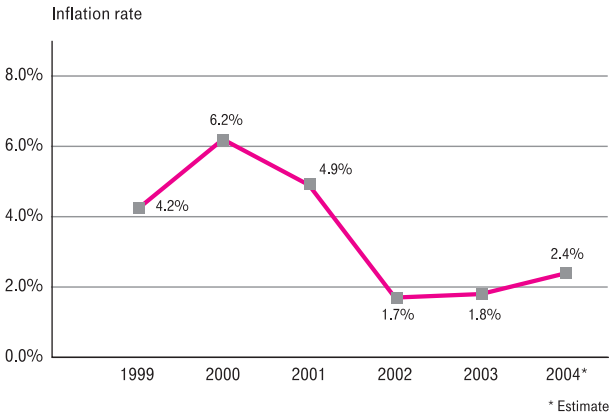
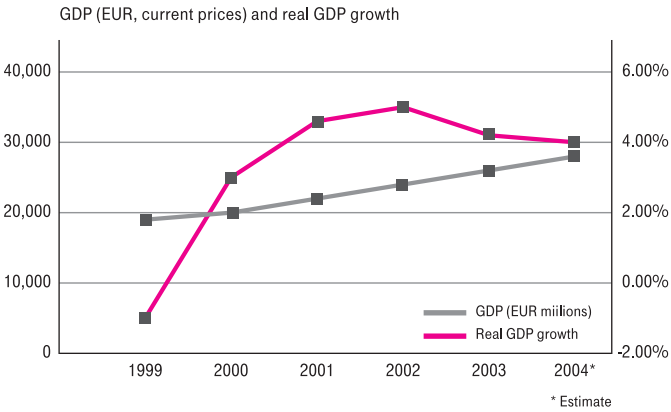
The Croatian economy has continued to grow steadily, with inflation remaining low and current account and fiscal deficits moderate. The gross domestic product recorded 3.6% year-on-year growth in the third quarter of 2004, driven mainly by a continued upswing in investments and strong personal consumption. However, a number of high-frequency indicators available for the third quarter suggest a mild deceleration in activity. Despite a mild slowdown over the previous quarters, personal consumption remained robust, setting the pace for overall growth. The continued growth of investment was reflected in a 7.7% year-on-year increase in the second quarter. Based on the number of overnight stays by tourists, the 2004 tourist season may be considered a relatively successful one.

Inflationary fears are increasing, combined with a recent surge in oil prices. However, our current estimates suggest that there will be no major impact on Croatian consumer prices. Average 2004 consumer prices rose by 2.1% compared to average consumer prices for 2003.

In August, the International Monetary Fund approved a new stand-by arrangement with Croatia. The main goal of this agreement is to strengthen fiscal consolidation and transparency, as the Croatian government's key economic agenda, which is directed toward stabilizing and reducing the country's external debt. This should in turn facilitate better fiscal prudence, with the government committed to tackling fiscal imbalances, while the National Bank will remain firmly in charge of currency stability and inflation.

Favorable exchange rate trends, the narrowing spreads of Croatian Eurobonds, and news of an improved credit rating also reflected on the domestic bond market, with a high turnover and price rise on the eve of the year-end holidays. 2004 will be remembered for its record amount of new bond issues, with government bonds taking the lead due to the need to finance the increased deficit, as well as for its record turnover.

At the end of 2004, the rating agency Standard&Poor's upgraded Croatia's credit rating from -BBB to BBB (stable outlook), having judged that Croatia was advancing in terms of reforms, fiscal consolidation and efforts to prevent an external imbalance.



Source: The Institute of Economics, Zagreb

Market Overview

Positive macro-economic trends, supported by continuing direct foreign investment and strong market acceptance of new technologies, are shaping the telecommunications market landscape in Croatia. The EU accession process (Croatia's EU candidate status and the anticipated commencement of negotiations on accession) has given a strong positive signal to internal and external market players alike.

The new regulatory framework has fostered the further development of competition, easing conditions for fixed market entrants, abolishing infrastructure investment obligations, and reducing license fees for fixed-line telephony operators. In addition, a third GSM license has been issued, and national roaming has become mandatory for the existing mobile operators. At the end of 2004 the two existing mobile operators were awarded a UMTS license.

With the introduction of broadband access, important changes have taken place in the world Internet market in terms of developing Internet access. The Croatian market has been keeping pace with these technical

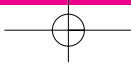
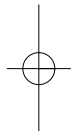
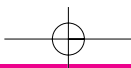
developments and trends. The year 2004 was a turning point at T-Com with regard to the development of broadband Internet access technology (DSL). The introduction of a new market model and changes in the technical platform led to a considerable increase in the number of DSL users by the end of 2004. A consequent stagnation in the use of narrowband (dial-up) access has been felt in the market, indicating that technological substitution has begun to take place with regard to Internet access, i.e. that large, advanced dial-up users have now become DSL users.

With regard to business customers, there has been further pressure for substitute technologies (e.g. VoIP, wireless connections). The business segment requires complete business solutions, and these are increasingly being offered in the portfolios of the company's competitors, who have been creating strategic alliances with various businesses in a quest for optimally balanced capabilities. Public infrastructure companies (e.g. HEP, HŽ, HAC) have already shown their interest in entering the telecommunications market in Croatia, and are willing to cooperate with and support new fixed-line operators on the market.

Since, besides business, education and other similar purposes, Internet is also used for entertainment, the market consisting of private customers who spend their free time on various types of entertainment has become much stiffer following the entry of a third national television channel (RTL) in Croatia and the adoption of existing entertainment models from Western markets (e.g. reality shows).

Another important positive factor influencing Internet development is the Croatian Government's orientation toward a complete "Internetization" of the Republic of Croatia and the implementation of broadband services. As part of the current "e-Croatia" project, a large number of state-run services are being encouraged to work via the Internet (e.g. tax returns, land registry certificates).

Viewed in its entirety, the telecommunications market continued its robust growth in 2004.







Milestones

Re-branding

- Joining the global "T" family of Deutsche Telekom

T-HT - Responsible corporate citizen

- Sponsoring the arts, sports, culture and science

T-Com

- New brand for integrated fixed-line and online services
- New fixed-line tariffs and services
 - European 25-tariff option
 - SMS in fixed network
- Strong broadband push
- Improving sales and customer care
 - a new visual identity of own shops - T-Centers
 - introducing the concept of T-Partners
 - introduced "fair dealing" and enhancing loyalty activities
- Strengthening VPN services
- Constant innovations on T-Portal

T-Mobile

- Affirmed position as market leader
- Increased loyalty of T-Mobile customers
- Acquiring an UMTS license

Re-branding

During 2004 Hrvatski Telekom implemented the process of re-branding, introducing on October 1st, 2004 a new corporate identity whereby HT became part of Deutsche Telekom's global "T" family. The new brand was launched by adding the letter "T" to the Hrvatski Telekom name, which has now become T-Hrvatski Telekom or T-HT for short. This change of identity at the corporate level was followed by the creation of brands in two separate segments: T-Com and T-Mobile. T-Com unites the fixed network (HTtel) and Internet access services (HTnet), while the mobile communications company HTmobile has now become T-Mobile Hrvatska.

Faced with ever-increasing competition in all segments of the Croatian telecommunications market, including the entry of new fixed network operator(s), Hrvatski Telekom recognized that introducing the T-brand was one of the most important steps toward retaining its position as market leader and the only full-service provider in Croatia.

Since 2000, the strategic and partner alliance between Hrvatski Telekom and Deutsche Telekom has resulted in powerful growth at HT, which has become a modern telecommunications company focused on using all the advantages of a global brand in order to further improve its business operations and strengthen its competitiveness. Today "T" is a symbol of quality and market power in the world of telecommunications.

In the process of adapting its own brand to the brand structure of Deutsche Telekom, one of the world's leading telecommunications companies and its majority owner, Hrvatski Telekom has become a recognizable member of the DT Group, at the same time preserving its national identity. The new umbrella brand T-HT and its sub-brands T-Com and T-Mobile guarantee reliability and quality, ensure the company a unified market image, and facilitate communication of its products and services to end users.

"T" is currently present in 30 countries throughout the world. Using its benefits primarily means further improving the national telecommunications market by introducing international standards, keeping pace with global technology trends and developing a total customer orientation. Synergy with the "T" brand ensures the company greater competitiveness, and thus improved business stability on a deregulated national telecommunications market.

By changing its name, Hrvatski Telekom has become the first Croatian company that is preparing itself for the European market. Internationalization will create even better conditions for it to become a powerful driving force for economic growth and an important factor in strengthening Croatia's role on the European and world stage.

T-HT’s strategy is built around the DIGIT modules:

Defend & Develop; Innovate; Grow; Integrate; Transform

T-HT is the overall Croatian market leader in providing universal telecommunications services and offering a comprehensive product portfolio. T-HT's goal is to create value for its customers, shareholders and partners while being socially responsible toward its employees and society in general.

T-HT's strategy will remain focused on quality of services, customer satisfaction, and further development of broadband access, as well as added-value, broadband-related services.

The customer is and will continue to be at the center of T-HT's efforts, and all necessary internal adjustments will be made so as to better serve each and every

customer segment. T-HT's focus will remain on its core business, while the company will seek to outsource non-core activities, or to develop certain internal services and offer them to the wider market, in order to increase its revenue share deriving from such new businesses.

- T-HT's overall corporate strategy is organized around three objectives:
- Business strategy focused on business segments: Develop, Defend and Grow
 - Integration: Focus on customer-oriented product portfolio and exploit synergy with the DTAG group
 - Transformation: Improve efficiency along the value chain

T-HT's strategic concept may be monitored in terms of sustainable growth of revenue, creating shareholder value (EVA), customer orientation, and performance-based organization.

T-HT’s Organization

T-Hrvatski Telekom

During 2004 Hrvatski Telekom undertook the process of re-branding, introducing a new corporate identity as part of Deutsche Telekom’s global “T” family on October 1, 2004. The T-brand will improve HT’s overall image and boost integration with the DTAG group.

T-HT Group

The T-HT group’s operations are realized via three lines of business, organized in the form of two business units (fixed network and online) and one separate independent legal entity, T-Mobile d.o.o., which is 100% owned by T-HT d.d.

fixed network
online
T-Mobile d.o.o

Corporate functions

The corporate functions supporting these businesses are organized into four corporate units: CEO unit, finance unit, service unit, and human resources unit.

CEO unit
finance unit
service unit
human resources unit

T-Com

ADSL Push

Broadband growth is one of the cornerstones of T Com’s strategy. During 2004 progress was made in enhancing the awareness, availability and attractiveness of the MAXadsl product. Moreover, a high penetration of broadband connectivity represents a driving force behind economic growth in Croatia. It will have a positive impact on areas such as education and learning, increased employment opportunities, and Croatia’s competitiveness and attractiveness to foreign direct investment.

The implementation of T-Com’s strategy of nationwide ADSL rollout began with the spring re-launch of its ADSL service. A pricing and platform change (from an ATM to IP network, in order to decrease maintenance costs) resulted in 3,000 new customers by the end of summer 2004. Platform change from ATM to IP/Ethernet also contributed significantly to future proof capabilities and capacity of new broadband infrastructure, as IP/Ethernet platform is increasingly perceived as

future optimal transport network. Following successful platform migration, a strong educational marketing campaign was launched in September 2004. In only four months 14,000 new customers were connected to the ADSL network. The year ended with coverage of 52 cities and with more than 22,000 connections, enabling customers to enjoy fast web surfing via ADSL.

Over 210 IP DSLAM locations were installed, with more than 37,000 ADSL ports and Ethernet aggregation switches in all of Croatia’s population centers, thus ensuring the spread of existing and future services via broadband access. Existing residential broadband infrastructure (ADSL, Ethernet) insures capability of service portfolio expansion with offering of high bandwidth services (<>1Gbps) for business and future multimedia services (IPTV, VoD) for residential customers. In this way broadband infrastructure development will insure continued strong presence of T-Hrvatski Telekom as a full service provider in both residential and business

customer segments. Broadband access is ready for a potential reach of more than 40% of the total number of customers at installed locations.

As T-Com stepped up its efforts to develop broadband and satisfy customers, increasing the quality of services was of the utmost importance. The “Excellence at T-Com” project was therefore introduced, training 110 top ADSL service specialists to meet the desired goal.

In order to further increase interest in ADSL nationwide, WLAN technology was integrated with broadband, enabling high-speed wireless web surfing from anywhere in the customer’s home or office when sharing a broadband Internet connection with other PCs at the same time.

T-Com intends to further develop the Internet market and boost broadband access in Croatia.

Improving Sales and Customer Care

T-Centers

Direct contact with customers takes place at the 45 T-HT shops located throughout Croatia. Here customers can experience the high quality of T-HT's products and services for themselves. As part of re-branding activities, four shops were completely refurbished to become ambassadors of the T-Com brand, reflecting the image of a modern, dynamic telecommunications company. The sales floor was divided into a T-Com zone, a T-Mobile zone, a Business zone, a Surf station and a HOT zone (direct link to customer care). The new shops are recording a higher number of visitors and enjoying increasing popularity as an excellent meeting place. The remaining shops were either retrofitted or rebadged to meet T-Com's visual identity standards.

T-Partners - A New Sales Channel

Recognizing the need to bring T-Com's products and services as close to customers as possible, T-Com

branched out into the field of indirect partnership, better known as T-Partners, in April 2004. Offering T-Com products and services via 66 indirect partners ensures wider geographical coverage, and enables a clear response to customers' needs.

Around-the-Clock Customer Care - 24 Hours a Day, 7 Days a Week

The overall strategy of T-Com's Customer Care service is to continually focus on improving customer satisfaction. In order to satisfy each customer's needs, Customer Care was reorganized so as to be able to provide a wide range of services. The goal was to remove all barriers toward providing excellent customer service, and to involve all customer-facing personnel in that effort.

In addition, a customer satisfaction model was established, aimed at adjusting performance to meet customer desires. In order to enable easier

communication with customers a unique contact center number and email address were launched simultaneously with the T-Com brand in October. Loyalty activities, i.e. courtesy calls, welcome book, open channels for customer feedback (consumer corners, complaints box, etc.), were also introduced as additional means of generating higher customer satisfaction.

"Fair Dealing" - a simple, customer-oriented compensation incentive aimed at offering token gifts to alleviate customer grievances and, at the same time, speed up the customer complaint process - is being successfully implemented, and represents the main improvement in Hrvatski Telekom's new customer-oriented policy.

T-Com

T-Com Fixed-Line Services

Fixed-line services remain the core of T-HT's business activities. At the end of 2004 the total number of connected analog and digital lines (POTS, FGSM, and ISDN) was 1,676,482, of which 84% were residential and 16% business lines. The desired trend of migrating customers toward more enhanced services is reflected in the success of ADSL and strong ISDN growth (+14%), as well as a decline in the number of analog lines (-1.5%).

The fixed-line business is already experiencing increased pressure from a number of smaller alternative providers in both the voice and data segments, and particularly in business segments that are utilizing substitute technologies like VoIP. These pressures were anticipated by T-HT, and are expected to increase further in the future.

Revenue from traditional voice services remained stable compared to the previous year. The total revenue earned was HRK 4,148 million, which represents 51.1% of the HT Group's total revenues.

The residential customer segment represented 66% of total fixed-line revenues, while the business customer segment represented 34% of total revenues.

Analog Access

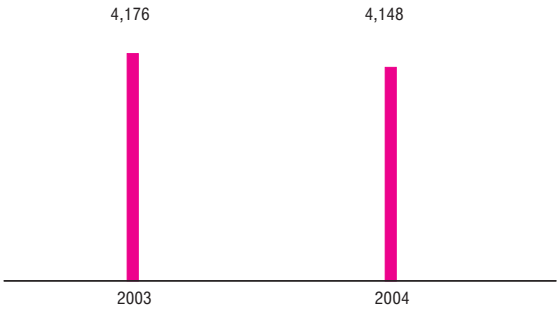
T-Com's traditional analog access provides wide geographical coverage and accessibility, offering customers premium quality at affordable prices. In order to make calling easier and more convenient, customers have been offered advanced value-added services (e.g. CLIP, call waiting).

Growing ISDN

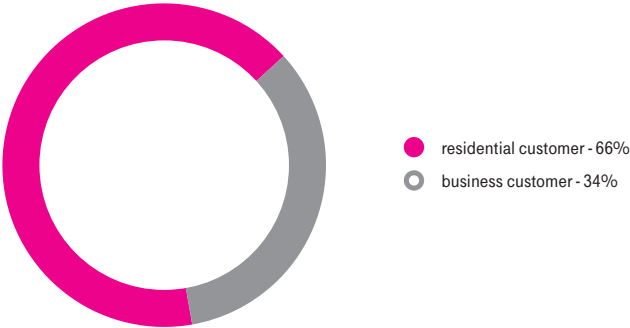
In 2004, T-Com continued to promote ISDN as a premium fixed-line voice service with more features and capabilities and easier use than traditional analog lines. Having reached a total of more than 127,000 ISDN mainlines, T-Com's growth rate remained steady throughout the year 2004.

Mainlines	2004	2003	Growth
Analog POTS	1,542,070	1,565,882	-1.5%
FGSM	7,114	6,455	10.2%
Total POTS mainlines	1,549,184	1,572,337	-1.5%
ISDN BRA mainlines	124,342	109,428	13.6%
Total PRA mainlines	2,956	2,275	29.9%
Total ISDN mainlines	127,298	111,703	14.0%
Total mainlines POTS+ISDN+FGSM	1,676,482	1,684,040	-0.4%
ADSL	22,356	2,336	857.0%

Revenue comparison (HRK millions)



Revenue share per customer segment



Europa 25 Tariff Option

In October 2004 a new tariff option called “Europa 25” was launched, offering residential customers cheaper calls to family members and friends in the EU countries. This tariff option offers residential customers up to 50 minutes of international calls to EU countries for a flat monthly fee of HRK 25 (incl. VAT). Over 8,500 customers opted for the Europa 25 tariff option in 2004.

Fixed Network SMS

The fixed network SMS service, launched in December 2004, is a convenient service that allows fixed-line telephone users (both analog access and ISDN) to compose and send text messages to T-Mobile customers, as well as to other fixed-line subscribers. The introduction of the fixed-line SMS service has opened up new sales opportunities. The number of users of this service climbed to 10,000 within one month after it was launched.

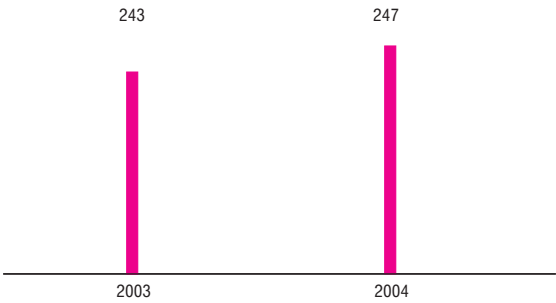
T-Com Data Services

As an integral part of its data strategy, T-Com has focused on migrating customers from unmanaged to managed and tailored services and solutions, supported by strong promotional efforts at the autumn trade fairs. Among traditional data products, the highest level of interest and demand was shown for the Frame Relay product, due to its high flexibility and the optimal solution it provides for customers.

Despite significant competition in this business segment, T-Com’s data revenues amounted to HRK 247 million, representing a slight increase of 1.6% compared to the previous year.

In addition to traditional data products, as an integrated service provider T-Com is offering its customers enhanced products and services based on its IP platforms, thus enabling further integration of voice and data services in the products it offers.

Revenue comparison - Data (HRK millions)



Lines	2004	2003	Growth
X.25	1,483	1,481	0.1%
Managed LL (TDM)	563	518	8.7%
Unmanaged LL	7,546	7,543	0.0%
Frame Relay	4,094	3,296	24.2%
ATM	75	61	23.0%
VPN	22	33	-33.3%
Telegraphy	520	553	-6.0%
Total	14,303	13,485	6.1%

T-Com

T-Com Internet Services

In conditions where technical innovations are occurring all the time, and competitive pressure is constant, T-Com Internet has managed to retain its leading position in Croatia's IP market.

The number of dial-up users increased by 17.4% in 2004, attaining a figure of 562,772 customers. T-Com Internet's market share in the dial-up segment remained relatively stable at 69.5%.

The greatest positive effect on sustaining T-Com Internet's leading market position came from the introduction of MAXadsl broadband Internet access, which was redesigned in 2004 to become more attractive to a larger number of customers, especially large dial-up users. By the end of 2004 the number of MAXadsl users had exceeded 24,000.

The number of customers using fixed-line access to the Internet increased by 26% while increase in number of VPN access points came up to 130%. This impressive growth resulted from the introduction of new VPN solutions for business customers, as well as from a proactive approach to all customers and intensified sales and marketing activities.

New Services - New Customers

T-Com gives high priority to safeguarding customers' interests and protecting their data and systems. Innovative tools have been implemented to enhance safety and security: an anti-virus, spam and unwanted network protection system for ADSL and dial-up users, as well as a hardware platform providing firewall services to users of the Net PRO service. In addition, a software solution was provided to protect users from dialer programs.

Launching the Private Network service marked the beginning of a new generation of T-Com services, creating the basis for tailored business solutions. This service includes consultation on designing customer's networks, connecting remote offices via all available access technologies, and continuous support and monitoring of customers' needs.

Number of users	2004	2003	Growth
Dial up	562,772	479,422	17.4%
Fixed line access	560	446	25.6%
ADSL (accounts)	24,302	2,336	940.3%
Access points	2004	2003	Growth
VPN	138	60	130.0%

Further development of the Private Network service is being directed toward integration with voice services and defining quality parameters so as to guarantee that all services delivered are of the highest quality. In this way, T-Com is positioning itself as the leading solution provider for all business customers and all business segments.

T-Com's e-commerce service developed significantly in 2004, making a notable contribution toward the robust growth and development of e-commerce in Croatia, and positioning it as the leading e-commerce provider. The e-commerce service gives companies the opportunity to open new (Internet) sales channels. This enables low-cost access to a large market, with customers able to buy from home via Internet shopping centers that are accessible 24 hours a day, 7 days a week, and 365 days a year.

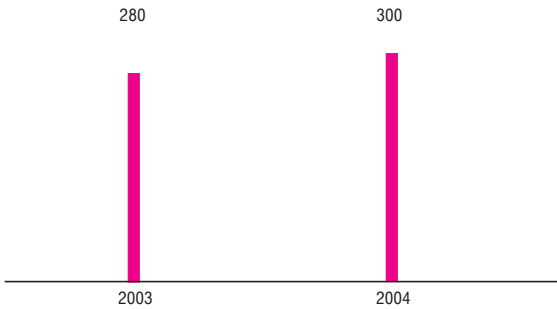
By the end of 2004, the number of active business partners had increased by more than 100% compared to 2003. As a result, payments via electronic payment solutions showed a dramatic tenfold growth.

Revenues

Revenues from Internet services increased by 7.1% in 2004. While this is still considerable, the rate of increase was slightly lower than in previous years. The primary reason for this is that Internet penetration has already achieved considerable levels, so that additional new Internet customers have become diluted in an ever-increasing customer base, as well as the fact that substituting narrowband with broadband access technologies usually causes stagnation in total revenues during the first phase of broadband (DSL) service introduction. Moreover, there has been a significant increase in competition from the entertainment media (reality shows and the like).

The revenue share of the business customer segment continued to grow in 2004, representing 56% of T-Com's total Internet services.

Revenue comparison (HRK millions)



T-Com

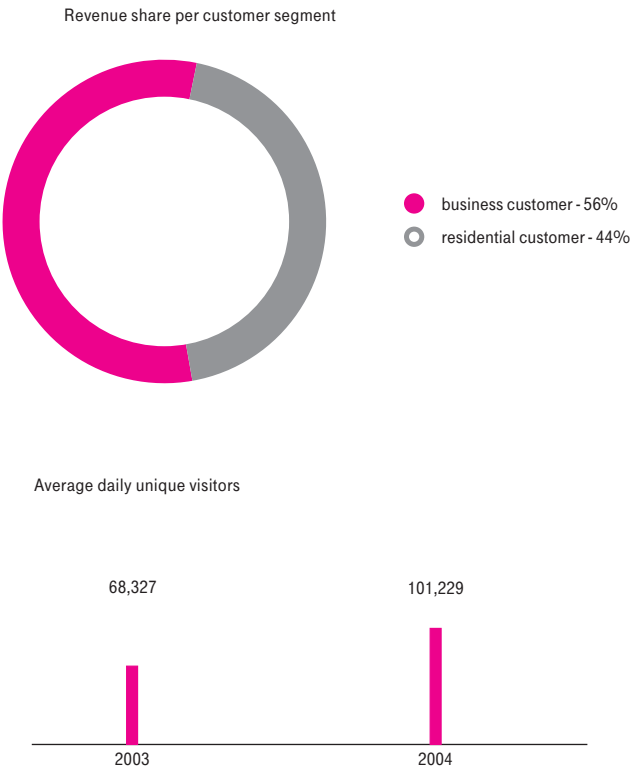
T-Portal

Constant innovations on T-Portal have contributed to its leading position on Croatia's web landscape, as indicated by its number of visits and number of customers, as well as the continuous upward trend in all statistical indicators.

During 2004 T-Portal was enhanced by a whole range of new content, the most important of which were Communicator, Playzone, Last Page, Job Offers, Family and Home. Existing content (sports, news, culture, showtime and kids) was reorganized and adapted to suit customers' needs. T-Portal successfully supported the multimedia coverage of Croatia's own "Big Brother", plus a number of web projects like the Paris-Dakar Rally, Kultura Hr, Don't Forget Me or the Radio 101 Speaker's corner.

Aiming at various audience segments, T-Portal content was additionally enriched in 2004 with columns by some well-known personalities from Croatian show business and the media, who have now become permanent T-Portal contributors. A large amount of audiovisual and interactive content intended primarily for broadband customers has also been added to T-Portal.

The average number of daily unique visitors reached 101,229 in December, which is a 48% increase in relation to 2003, when the number of unique visitors was 68,327.



T-Com Wholesale

2004 was characterized by the entry of some serious alternative infrastructure competitors (HEP, HŽ, HAC) in the area of wholesale capacities (international and national leased lines). At the same time, VoIP operators continued their activities, predominantly in the area of international voice services. However, T-Com succeeded in reducing the negative impact of such competition on its market share

Furthermore, national mobile operators focused intensively on their own direct international connections as well as mobile network interconnections, resulting in reduced usage of T-Com's wholesale voice products. All of this resulted in a slight decrease in all types of wholesale voice traffic, except for international to fixed, which increased by 18%, and remains the driving force behind the total growth of wholesale voice traffic.

T-Com's global Internet transit wholesale product was exceptionally successful. Beginning the year in a situation where all domestic ISPs were using either alternative infrastructure providers or their own international wireless capacities to access the global Internet, T-Com repositioned itself on the market by acquiring practically all commercial ISPs (96% in terms of their size) as its global IP transit customers by the end of the year. Thus the total IP capacity sold on domestic and neighboring international wholesale markets increased by 224% in 2004.

Revenues

There were several reasons for the significant decrease shown by wholesale (carrier services) revenues in 2004: the national mobile competitor's use of its own international interconnection links, churn on the international leased-line market prior to T-Com's repositioning on this market, and, finally, a general decrease in termination prices on the international market.

Traffic (mill. minutes)	2004	2003	Growth
Incoming to Croatia			
International to fixed	289.1	244.8	18.0%
International to mobile	148.2	163.3	-9.0%
Outgoing from Croatia			
International from fixed	224.9	233.9	-4.0%
International from mobile	95.3	108.7	-12.0%
Mobile to mobile	43.7	349.0	-87.0%

Revenue comparison (HRK millions)



T-Com

T-Com Call Center and Directory Services

The quality and productivity of services provided by the front and back offices of T-Com’s Contact Center were enhanced in 2004 by permanent assessment and improvement of existing processes. Customers have recognized the value of these services, making more than 47 million calls to directory assistance (988) in 2004 alone, as well as more than 58 million inquires via web directories in that same year. Also, the customers used the opportunity to place queries via WAP (4,500 queries) and SMS (30,000 queries). The average waiting time of 5.8 seconds for accessing the directory assistance service (988) is by far exceeding the 10 seconds waiting time regulated by the concessionary agreement.

Agents in the Call Center answered more than 70 million calls, representing an increase of over 25% compared to the previous year.

Extensive activities were carried out with an aim to prepare call center operations for offering range of services to third parties.

T-Com has all-inclusive comprehensive directory services in Croatia, with a complete, fully modern

product portfolio (phone directory assistance, printed directories and online directories). Yellow pages were printed in 2004 in a completely new layout and offered improved information level that made them attractive to the customers. 200,000 Yellow pages were delivered to all T-HT business customers and a great deal of residential customers.

Network

Network systems have been upgraded and enhanced on an ongoing basis, in order to ensure customer satisfaction and Hrvatski Telekom’s leading edge in the future. Operation Support Systems (OSS) were covered by several separate projects: Documentation Inventory System (DIS), Workforce & Workflow Management System (WWMS) and Network Management System (NMT). These were implemented with the aim of reorganizing monitoring, management and maintenance of the fixed network and its services.

In order to provide higher traffic security, satisfy demand on mobile and IP networks, and optimize the PSTN network, two international transmission

gateways have been formed, both equipped with new cross-connect nodes. These two international transmission gateways will also leverage the increase in regional traffic demand.

The ISP system’s technical platform has been upgraded with additional servers and disk space in order to support growth in the number of customers (dial-up and ADSL) while maintaining the level of service quality. T-Com’s own disaster-tolerant Internet system is currently being implemented, in order to support businesses’ demands for high service availability and secure uninterrupted access. This year’s sub-project included procuring a central storage system with support for remote site data replication.

The network infrastructure at T-Com’s Internet Data Center has also been upgraded. The introduction of new network equipment has enabled the provisioning of broadband content (projects such as Big Brother and Coca-Cola Music Stars), and ensures a high level of basic ISP services under conditions of increasing Internet traffic and user levels.

T-Mobile

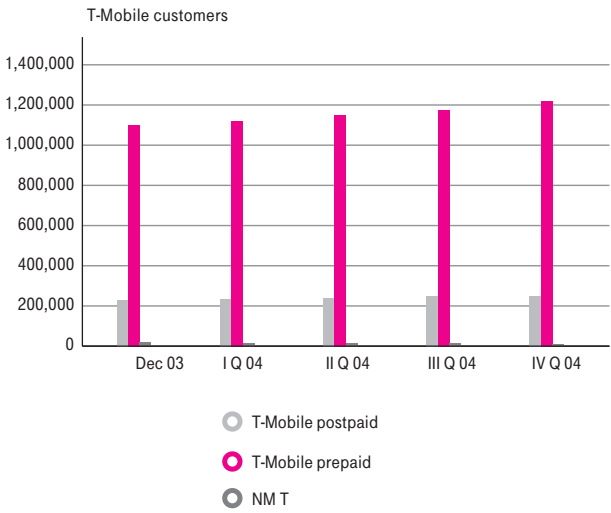
Affirmed Leading Position in the Mobile Market

During 2004 mobile penetration in Croatia increased from 57.6% at the end of 2003 to 64.4%* at the end of 2004. Within this market development trend, T-Mobile further strengthened its leading position on the Croatian mobile market, achieving 53.7%* of the market share.

Through numerous initiatives focusing on lifestyle, value and need-based segmentation and regional differentiation, T-Mobile gained 75.6%* of total net GSM postpaid adds, thus increasing T-Mobile's postpaid market share to 59%*. As a result of targeted up-selling activities, the share of postpaid (including NMT) in the total customer mix rose year-to-year from 18.9% to 19.6%.

Despite the migration of prepaid customers to postpaid, T-Mobile increased its prepaid market share from 51.6% to 52.5%*, ending the year with over 1.23 million prepaid customers.

A changed promotion policy led to a decrease in fraud, which, combined with improvements in credit and collection procedures, resulted in a significant decrease in the monthly churn rate, which dropped from 6.9% at end of 2003 to 0.93% at end of 2004.



*VIP results estimated for Oct - Dec.

T-Mobile

Joining the T-Mobile Family

In 2004 HTmobile joined the global T-Mobile group and thus became part of one of the strongest global brands. Full membership in the T-Mobile family will enable a better exchange of knowledge, information and experience, while giving our customers access to state-of-the-art products and services from top world markets. Joining the T-Mobile family brought a change in the company's name and market brand: after almost two years of operating as a separate company, on October 1st, 2004 HT Mobile Communications became T-Mobile Croatia. As a 100% subsidiary of its parent, T-HT, it has remained a Croatian company.

Best in Class in Customer Interaction (Service, Sales, Efficiency)

In 2004 efforts were made to approach customers in a more personal way, developing a long-term customer relationship. Among others, there were the following major achievements:

- opening new T-Mobile Competence Centers focused on customer needs in the field of mobile communication and giving customers full freedom to explore what T-Mobile offers
- introduction of new customer care features: service announcements in case of technical difficulties, with customers receiving a recorded message regarding the nature of the difficulties without having to hold the line

Efforts to improve customer interaction in 2004 resulted in increased customer loyalty, an increased redemption rate in both postpaid and prepaid loyalty programs, and greater customer satisfaction, as well as the establishment of effective win-back measures.

Increased Value from Voice and Mobile Data Business

In order to cope with increasing traffic and user numbers, as well as to enable the introduction of new services while maintaining continuous service quality, T-Mobile continued modernizing and upgrading its radio access network during 2004:

- EDGE was introduced in four major cities: Zagreb, Rijeka, Split, Osijek
- 91 new base station locations put on air
- 40 WLAN hotspots put on air
- Core Network capacity extended together with software upgrades, as well as capacity extensions and service platform upgrades; IN PPS - additional 50 kBHCA, up to 850 kBHCA, IN VPN - additional 50 kBHCA, up to 325 kBHCA
- GPRS - up to 200,000 simultaneously connected customers
- USSD gateway implementation to enable m-Pay service

T-Mobile has also replaced the existing SMSC platform through a technology swap for a next-generation SMSC platform, and implemented the Payment@vantage platform to enable online charging of SMS MO in roaming, SMS MT, MMS and m/e commerce services.

During 2004 the pilot UMTS network was successfully put into operation and tested. In addition, our core network has been upgraded to ensure support of UMTS standards and service, thereby preparing the company to offer UMTS commercially in 2005.

In the IT domain, T-Mobile has implemented an ICA system, new functionalities of the BC1.5 billing application, the first phase of the Data Warehouse (DWH) project, and an HW platform for High Availability Billing and DWH. As a part of its Business Continuity project, T-Mobile has finalized its Business Continuity Plan, which aims to minimize business risks for the company.

Impressive Financial Achievements

On consolidated basis, evenues from mobile telephony increased by 17.9%, from HRK 2,467 million in 2003 to HRK 2,909 million in 2004. The highest increase in revenues came from voice services, followed by increases in SMS and subscription fee revenues. Moreover, a significant increase of 141% in data and MMS revenues occurred in 2004, compared to 2003.

Minutes, Messages and WAP

In 2004 use of voice services was 17.8% higher than in 2003. In the area of data, the increases were as follows: SMS usage increased by 10%, MMS usage increased by 451% and GPRS usage increased by 132%.

In order to support re-branding, the company has been offering additional benefits to customers, including:

- the opportunity for all customers to choose an additional (international) Simpa ti&ja or Favorite number;
- 24-month contract extension with benefits, i.e. three different types of mobile phones offered at a price of HRK 1.00 to those who prolonged their contract.

In 2004 T-Mobile offered a whole spectrum of new services designed to fulfill the needs of all types of customers, according to their lifestyle, occupation, interests, age and so on. These include:

- the introduction of Tariff 60, a new postpaid tariff which includes usage in the monthly fee, was the biggest success in 2004;
- t-zones, a service offering various kinds of information, fun, e-mail access, checking account status, ability to download different kinds of content;

- “Who Called”, a free service that informs customers via SMS of missed calls while their phone was switched off or they were unreachable.

In order to ensure maximum customer convenience in its new services, T-Mobile has also formed close cooperation with other companies:

- Privredna banka Zagreb: in the area of m-commerce, T-Mobile launched m-Pay, a unique macro payment solution enabling the most secure and simple non-cash payment of telephone and utility bills via mobile phone, as well as payments for goods and service purchases at POS (point of sale) terminals and banking services such as balance inquiries;
- American Express: T-Mobile's American Express co-branded card offers special benefits to customers on both sides;
- HAK (Croatian Auto Club): “Roads Live” is a unique MMS service offering live status reports on the main traffic areas across Croatia.

In 2004 T-Mobile launched several new mobile data tariffs (Mobile Internet, M2M), introduced the Blackberry solution, and implemented EDGE, an enhanced data transfer bearer. In addition, GPRS

and MMS roaming services became available in more than 40 different mobile networks in over 25 countries worldwide.

On the business market, T-Mobile maintained its very strong position, with an estimated market share of 70%. T-Mobile's orientation toward developing partnerships and contributing to the national economy resulted in the launch of the first IT partnership program on the market, building a range of advanced and innovative mobile business solutions.

UMTS License

On October 18, 2004 the Croatian Telecommunications Agency adopted a decision awarding T-Mobile a concession for use of the third-generation UMTS mobile network in Croatia for a period of 20 years. T-Mobile Croatia has committed itself to cover at least 25% of the Croatian population within a period of two years, and at least 50% of the population within a period of five years. Based on the demand for UMTS services, T-Mobile will strive to provide world-class UMTS access to its customers.

Human Resources

The process of organizational development and the improvement of T-HT's business efficiency have also impacted the development of corporate human resources. Besides being aware of its responsibility toward customers, T-HT is also conscious of its responsibility to shareholders, the community at large and, in particular, its employees. Responsibility toward employees - our company's most valuable asset - has been articulated and promoted via sustainable development of human resources. T-HT is aware of the fact that employees are essential to its success, and that it cannot face the many challenges of the future without committed, motivated workers who will carry out all the necessary changes.

In 2004, T-HT's initial strategic challenges with respect to human resources development were as follows:

- adjustment of the number of workers to the company strategy, which has been realized in several steps in cooperation with the business units and with the consent of the HT d.d. Workers' Council and the Croatian Employment Agency. As of December 31, 2004 the HT Group had 8,862 workers. This included 577 workers whose employment ended as of January 1, 2005¹.
- preparation of a new collective agreement;
- supporting implementation of T-Spirit and company re-branding, projects which are extremely important for aligning T-HT with the DT Group;
- introducing a new approach to hiring that enables all interested persons to register via an

"open application", even at times when no vacancies are available; to date this has produced a valuable database of more than 2,500 candidates;

- preparing for:
 - implementation of a company virtual training center to serve the majority of employee training needs in all business and corporate units;
 - implementation of a comprehensive company performance management system, as well as an adequate remuneration and bonus system, ensuring that employees receive equal pay for equal performance;
 - conducting surveys on the corporate climate, i.e. employee satisfaction within the company.

Aware of the fact that our company needs to be customer-oriented, as it will soon be competing on a fully liberalized market, during 2004 T-HT focused on training and educating employees who are in direct contact with customers. Training was provided for 450 workers who communicate directly with end users of T-HT services on a daily basis (sales, customer care), as well as for the majority of workers in the field, who are in touch with customers daily as part of their duties. These efforts will certainly result in increased customer satisfaction.

Being aware as well of its responsibility to maintain and improve the company's market position in the long term, T-HT has, in line with its values, been providing support to its workers in acquiring global

know-how by means of the following:

- university studies at educational institutions (during 2004 we supported 68 new candidates in their undergraduate and postgraduate studies),
- professional education in Croatia and abroad,
- other education and training in accordance with the needs of a given job position.

These activities were undertaken with the aim of enhancing the company's reputation, presence and significance in the market and the community. Furthermore, to ensure better and more effective performance, 1,660 of our company's employees have been enrolled in language courses (mainly English), while 2,100 employees received various kinds of general (1,300) and specific (800) IT training courses.

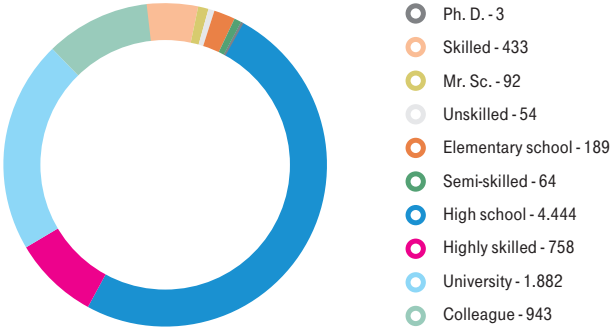
In addition to the foregoing, T-HT human resources launched the following new activities aimed at achieving future improvements:

- redefining HR strategy for closer alignment with overall company strategy and DT Group strategy, based on:
 - harmonizing diversity, establishing a modern company culture, acquiring the values of the DT Group and introducing local values, adapting to changes, and raising the company's reputation among customers,
 - human resources cost management, aimed at increased efficiency and reinforcing company competitiveness,

¹ As of January 1, 2005, T-HT had 8,287 workers (989 of whom are employed by T-Mobile). This represents a 10.4% decrease in the number of employees as compared to December 31, 2003.

- introducing a comprehensive salary system with emphasis on long-term remuneration,
 - ability and skills management focusing on talent management, career development, know-how management, lifelong learning and links with the scientific community, all according to the company's long-term interests,
 - efficiency and quality of the Human Resources corporate unit;
- systematic identification of company needs in terms of professional and manager education and training;
- preparation of a mid-term implementation plan for education;
- introduction of a pilot project for an e-learning system for the company's internal needs;
- establishment of systematic education and training evaluation;
- preparation of a handbook for new hiring procedures;
- improvement of the e-employment system, in order to shorten the duration of the procedure and cut costs;
- installation of an IT system for use by the Human Resources corporate unit (administration, payroll, development);
- more effective communication, i.e. presenting information on company activities in terms of benefits for all employees and company prosperity.

T-HT's employees according to level of education







Corporate Social Responsibility

The value approach adopted by T-HT in its business operations is based on the company's sense of responsibility toward society and the environment, as implemented and reinforced via sponsorship and donation activities on a continuing basis. As one of the leading companies in Croatia, T-HT is well aware of its social responsibility, and this is the reason why it actively participates in the life of the local community. It represents a driving force behind Croatia's social, economic and technological progress, using technology to enhance the quality of life.

According to its donation strategy criteria, T-HT focuses primarily on education, social and cultural projects in the Republic of Croatia, whereas its sponsorship strategy centers mainly on sports activities.

Knowledge and Culture - Driving Forces in Society

Guided by the idea that knowledge and culture are the driving forces in society, and endeavoring to help those who need it most, T-HT participated in or initiated a number of donor activities and programs in 2004.

As part of the ongoing "Net in Schools" project, which has been continuously implemented in cooperation with Ministry of Science, Education and Sport since 2001, T-HT donated 10 hours of free Internet access daily to all elementary and secondary schools in Croatia

in 2004, as well as 100 million free minutes of Internet outside schools. One of the basic goals of "Net in Schools" is to improve the teaching process by enabling students to use the Internet in their research outside school, since they are also able to use the free minutes from home, thus enjoying permanent access to new ideas, media and technologies. No less than 700 computers were donated last year to local schools with a small number of students and without adequate administrative personnel. The continuity of the "Net in Schools" project and the results it has achieved so far prove that T-HT is eager to ensure the best possible learning environment regarding the Internet and its use, thus creating the preconditions for the development of an IT society.

T-HT is contributing to the development of the Internet and web content in Croatia on an ongoing basis. In order to utilize the Internet as a means of better health and disease prevention, T-HT donated HRK 200,000 toward building the Croatian Institute for Public Health's website, and has continued its practice of providing active support to the Telemedicine project, whereby the modern telecommunications infrastructure has become a tool for better health care on Croatia's islands.

In order to improve education and knowledge in local areas, T-HT announced a competition for regional donations in early 2004, through which it donated HRK 1,000,000 to 60 education projects in the Republic of Croatia.

The largest individual donation by T-HT in 2004 was the HRK 2.5 million it gave toward the preservation of the Croatian cultural heritage, including the restoration, reconstruction and renovation of five highly valuable art collections, some of which are several centuries old: the library of the Franciscan monastery of Sv. Philip and Jacob in Vukovar; the City Museum of Vukovar; the "Small Atelier" of the sculptor Ivan Meštrović in the park of Split's Meštrović Gallery; the Gvozdanović Collection in Babočaj Gvozdanović Palace in Zagreb; and the collection of Croatian 19th century women painters donated by Josip Kovačić to the Museum of the City of Zagreb. All these are invaluable treasures of the Croatian and world cultural and artistic heritage, and must be restored and preserved.

In 2004 T-HT has participated in humanitarian project "Hvala ti moj dobri anđele" with its revenue generated from calls made to 060 number. In the project organized by the Croatian Association of Impaired Persons 1,300,000 HRK was collected.

Conscious of the importance of telecommunications in raising funds for those in needs, T-HT, with the support of the Croatian government, initiated a new method of selecting humanitarian activities for telephone fundraising in August 2004. The assignment of telephone numbers for humanitarian activities is now determined by an independent body, i.e. an expert committee consisting of representatives of the government, unions, consumer associations and

other institutions, as well as reputable public figures in the areas of humanitarian work and sports.

In 2004 T-HT was initiator of biggest humanitarian project “Don’t Forget Me”. In common project of Fund Bishop Josip Lang, Europapress holding, Croatian National Television, T-Hrvatski Telekom and altruistic participation of Croatian citizens in two months HRK 4,287,722 was collected for foundation for the construction of homes for the elderly, the poor and the homeless.

Sponsorship

In order to promote new brands and create a positive image directly resulting in increased sales of its products and services, T-HT made numerous investments in sponsorship projects, conferences, and cooperation with international institutions in 2004. By its sponsorship T-Hrvatski Telekom, as one of biggest and strongest company in Croatia, is showing its responsibility toward development of Croatian society especially through cultural and sport sponsoring activities. Investments in those two areas help in development of Croatian society but also those areas are the strongest promotional tools in Croatia which deserve all possible consideration and care.

Considering the impact that sports have on society as a whole, T-HT became general sponsor of the Croatian Olympic Committee in 2004, thereby promoting the

company and tying its brand to the values of the Olympic Games. During this Olympic year T-HT took an active part in the events in Athens, providing telecommunications connections and equipment for the Croatian press center there and significant funding to the Croatian TV studio, which bore the company’s logo. This sponsorship gives us the right to say that T-HT was present in Croatian homes 24 hours a day over more than a month via this sporting event, which won the highest viewer ratings last year. Continuing its sponsorship strategy for football, as the most popular team sport in Croatia, T-HT renewed contracts with Croatian first-league football teams and continued to sponsor the only ATP tournament in Croatia, ATP Umag.

Aiming to associate itself with pop culture as well, T-HT sponsored a concert by Edo Maajka, the most popular rapper in Croatia in 2004, and was the main sponsor of the CD “I Long for Your Love”, with the 12 most popular Croatian singers performing spirituals. Part of the revenues from sales of this CD was intended for the charity campaign “Don’t Forget Me”, of which T-HT was among the sponsors. In support of film culture, T-HT was the main sponsor of the 51st Pula film festival.

Given that large congresses and conferences practically cannot take place nowadays without telecommunications support, T-HT has affirmed its role as the leading telecom operator in Croatia by becoming a partner to a number of international and local forums and conferences, especially those

connected with the telecommunications sector, economic development, and IT community development, providing the necessary telecommunications infrastructure and equipment. In 2004 the most important such events included the Croatian Employers Association’s entrepreneurship congress, SoftCOM, MIPRO 2004, and the ministerial conference of the Stability Pact for South East Europe.

Combining telecommunications with environmental protection, two inseparable components of its operations, T-HT enabled secondary school students on the island of Korčula to take part in a UN conference via video conferencing during the global Environmental Protection Day on June 5th. T-HT was the main partner of the non-profit organization Dolphin’s Dream in its large national project “Green 2004”, which aimed to actively promote social awareness about preserving the Adriatic coast’s natural resources, and raised donations for 10,000 olive tree seedlings and 15,000 pine and cypress trees that were planted along this coast.

T-Com Futuro is a joint project with the Faculty of Design, within which T-Com has provided equipment for the classrooms of future web designers. In 2004 this project also supported Croatian film through the following productions: “This Beautiful Night in Split”, “Pušća Bistra”, “Witnesses” and “Horseman”. T-Com also sponsored a number of films in the Film Association’s “Kinoteka/Film Archives” project, allowing a number of international films to be brought, translated and shown.

Corporate Social Responsibility

The big TV/multimedia event Big Brother - the first Croatian reality show - was sponsored by T-Com, and brought it significant results in terms both of T-Com's brand presence and large-scale promotion of its MAXadsl high-speed Internet service. Around-the-clock viewing of this reality show was possible only on the Internet, which further boosted use of broadband Internet services.

In terms of its contributions to society, a number of cultural, sporting and technological events were sponsored by T-Mobile in 2004. Significant cultural events were enabled by T-Mobile's sponsorship; "Rijeka Summer Festival - Riječke ljetne noći, HTmobile Kontrapunkt Festival, Modern Dance week, "Cro a porter" (fashion show), and assistance was provided to the Theater "Mala scena" and HTmobile Art Club was initiated.

Since it was exceptionally successful in 2003 project HTmobile Art Club has been extended in cooperation with the Institute for modern art in 2004. This project

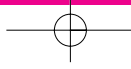
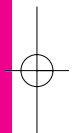
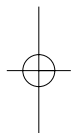
has promoted Croatian art- photography and helped advance reputation of young Croatian artists. Besides sponsorship of cultural events, T-Mobile has in 2004 promoted sporting events. In an attempt to improve quality of life and development of disabled (especially children and youth) T-Mobile has donated HRK 1,000,000.00 to Association of Disabled Athletes. With this donation T-Mobile has indirectly helped 39 clubs and associations dealing with disabled.

T-Mobile has in 2004 supported and invested Croatian National Ski Team. With pride it can be stated that from the very beginning of her career T-Mobile has supported Janica Kostelić. Hrvatski Telekom has since 1998 invested considerable funds into sponsorship of Croatian Alpine Ski Team, and two years later T-HT became general sponsor of Croatian Alpine Ski Pool. T-Mobile sponsors Croatian Ski Association and Croatian National Ski Team, and it is also personal sponsor of Janica Kostelić. In addition T-Mobile sponsors Croatian National Snowboard Team.

In addition to skiing, T-Mobile actively supports sailing events, as sponsor of HTmobile's BBcrew (women's sailing team), ACI HTmobile Cup (match race regatta), Worlds 470 Championship, Fiumanka (sailing race regatta) and windsurfing - Istra Surf Center, PWA soul&style HTmobile Tour

T-Mobile has in 2004 invested in basketball by sponsoring Basketball Club Split, and HTmobile Student Basket. Besides popular sports, T-Mobile was sponsor of first adventure race in Croatia, in which four person team must endure maximal stress of with water rafting, canoe, climbing, bicycling and walking.

T-Mobile was sponsor of most important conferences and technological events in 2004. It has sponsored Zagreb Info fair, MIPRO conference (Mobile, IT and WEB technology conference) and choice of best handset Zlatni Moby Award (industry hardware award - handset review)







Management Report for the Financial Year 2004

Regulatory Environment Overview

New Ministry Regulations

Continuing the process of establishing a new set of telecom legislation, which was initiated in 2003 with the adoption of the new Telecommunications Act, the competent ministry in the area of telecommunications adopted several new sets of regulations during 2004.

The Regulations on Licenses and the Regulations on License Fees (in force since April 2004) define the principles and procedures for awarding concessions /licenses in the form of a “soft licensing system”.

Several significant novelties have been introduced:

- easier conditions for fixed market entrants, abolishing the obligation to invest EUR 50 million in the telecom infrastructure;
- mandatory national roaming for existing mobile operators (applicable to GSM networks only); significant decrease in license fees for the fixed network.

The Regulations on Telecommunications Services (in force since the end of December 2004) prescribe conditions for providing and using telecommunications

services. Of particular significance are the new rules relating to price regulation of public voice services in the fixed network:

- obligatory inclusion of a certain amount of free national traffic (bonus) in the monthly fee for residential customers;
- obligation for SMP providers to launch an additional tariff system featuring per second billing, in cases where an SMP provider applies a tariff system with a billing interval longer than 1 second.

In addition, certain specific obligations on the part of SMP operators regarding their relationship to VAS and Internet service providers were introduced. Namely, SMP operators are obliged to define specific terms and conditions for ISPs, prepare a standard offer for VAS providers, and obtain the regulator’s prior approval for these documents, as well as to perform billing and collection services at the request of VAS providers (on a commercial basis).

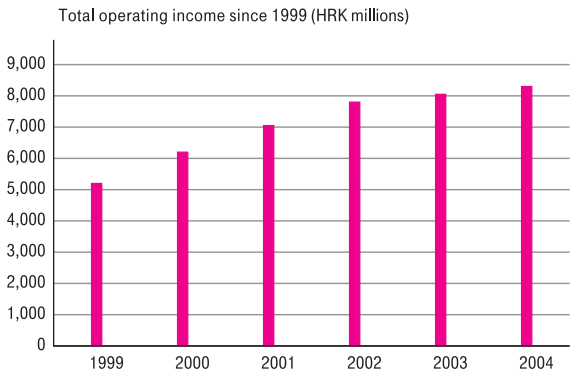
The Regulations on Number Portability and Carrier Preselection (in force since the end of December

2004) prescribe the basic principles and methods for providing NP and CPS, e.g. a “one-stop shop” principle for submitting requests (customer submits requests for NP and CPS via the recipient operator). However, certain open issues related to NP provision (e.g. central database, plan and deadlines for implementation, rules for calculation and distribution of costs, etc.) have been vested within the authority of the regulator.

Other regulations adopted by the ministry during 2004 and relevant to the telecom sector include the Regulations on a Fee for the Use of Radio Frequencies, Regulations on the Authorization of Telecommunications Activities, and Regulations on the Restriction of Intensity of Electromagnetic Fields for Radio Equipment and Telecom Terminal Equipment.

Management’s Discussion of Financial Performance

The following financial analysis should be read in conjunction with the consolidated financial statements and the notes included in this report. The consolidated financial statements of Hrvatski Telekom are presented in Croatian kuna (HRK), and have been prepared in accordance with the International Financial Reporting Standards, as well as the requirements of the Croatian Accounting Act. Where necessary, comparative figures for the previous year have been adjusted to conform with changes in presentation in the current year. The financial statements presented and the analysis thereof were made in accordance with the total-cost method, and differ from the financial statements provided for DTAG consolidation purposes, which were made according to the cost-of-sales method.



T-HT Group Consolidated Financial Results

The company’s consolidated operating income for the year ending December 31st, 2004 amounted to HRK 8,349 million. Its consolidated operating profit stood at HRK 2,111 million, while its net profit for the year amounted to HRK 1,924 million.

Consolidated Revenues

Consolidated revenues in 2004 reached HRK 8,118 million, representing an increase of 3.5% over 2003. Revenue growth that was generated only in market segments where HT is already facing competition.

The growth in group revenues was primarily driven by mobile communications and, to a lesser degree, by data and Internet services. Together these business segments accounted for 42.6% of the company’s total revenue, with growth in these segments more than offsetting the decrease in fixed telephony revenues and revenues from carrier services. The breakdown of total net revenue by business segment is given below:

Revenue by business segment	2004 HRK millions	2003 HRK millions	2004/2003
Revenue from fixed telephony	4,148	4,176	-0.7%
Revenue from carrier services	514	674	-23.7%
Revenue from data services	247	243	1.6%
Revenue from online services	300	280	7.1%
Revenue from mobile telephony	2,909	2,467	17.9%
Total Revenue	8,118	7,840	3.5%

Management Report for the Financial Year 2004

Revenues from fixed telephony amounted to HRK 4,148 million, which represents a slight decrease of 0.7% compared to 2003. This decrease was mainly due to the decline in fixed-to-mobile revenues caused by cheaper prices for calls within mobile network, while the decrease in analog access revenue was compensated for by an increase in ADSL access.

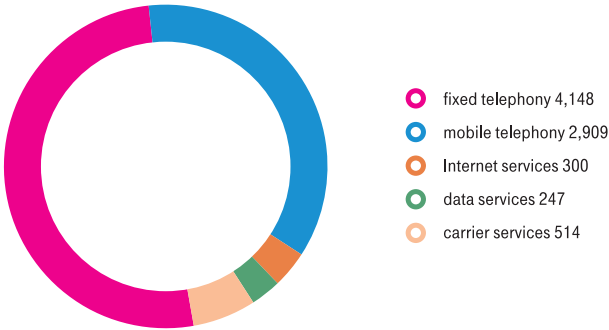
Revenues from carrier services have decreased by 23.7% due to several reasons. Most importantly the national mobile competitor's use their own rather than T-Com's international interconnection links. In addition prior to T-Com repositioning in the market high churn on the international leased-line usage was evident. Finally a general decrease in termination prices on the international market has had an impact on the revenues from carrier services as well.

Revenue from data services increased by 1.6% compared to 2003, reaching HRK 247 million. This growth resulted primarily from the increased interest for more flexible products like frame relay and ATM. Since subscription fee generated in January was excluded from posted data revenues - due to the alignment of disclosures with IAS rules - on comparable basis, data revenues would have increased by 10.5%.

In 2004 the total internet revenue has been increased by 7.1%, which is slightly lower increase than recorded in previous years. The reasons are: Internet penetration reaching the rate which cannot be multiplied anymore, unregulated alternative market, substitution of narrowband and broadband. Revenue increase of 21% was recorded in Fixed Internet segment, while at the same time, due to above mentioned reasons, dial up segment increased only by 2%.

Revenues from mobile telephony rose by 17.9% over 2003, amounting to HRK 2,909 million, which also represents the highest relative revenue growth. These revenues were underpinned primarily by T-Mobile's strong market position, continued customer growth, and rollout of new services. In absolute terms, mobile telephony was the most significant contributor to the growth of consolidated group revenues.

2004 revenue composition (HRK millions)



Consolidated Operating Costs

During 2004, the company's consolidated operating costs amounted to HRK 6,238 million, thus remaining at almost the same level as at the end of 2003, namely, a decrease of 1.7% compared to 2003 consolidated costs was registered.

Material Costs

The cost of raw materials, consumables and merchandise increased by 27.5% if compared to 2003. This increase can be attributed mainly to the increase in costs of merchandise purchased for resale to consumers (mobile handsets, ADSL terminal equipment and similar). Cost of services increased by 4.4%, mainly as a result of increases in domestic interconnect GSM costs. Other elements of service costs have either remained stable or have slightly decreased.

Staff Costs

Although the educational mix of employees improved (in favor of highly educated personnel), there was a 15.4% decrease in total staff costs. The cost of gross wages and salaries decreased by 4.3% as a result of redundancy programs completed in previous periods. In comparison to 2003, costs of redundancy and employee legal cases in 2004 have decreased by 36.0% mainly due to existence of - one time extraordinary employee related legal expense recorded in 2003.

Depreciation and Amortization

Depreciation and amortization amounted to HRK 1,354 million, an increase of 4.2%, or HRK 55 million, over 2003. Write-down of fixed assets in amount of HRK 57 million relates to the T-Mobile's impairment loss of its property, plants and equipment, indicating the obsolescence of assets used as well as planned modernization in 2005.

Write-Down of Current Assets

Current assets write-down in 2004 amounted to HRK 151 million which is18.8% decrease in comparison to write-down of current assets in 2003.

Staff Costs	2004 HRK millions	2003 HRK millions	2004/2003
Gross wages and salaries	859	898	-4.3%
Taxes, contributions and other payroll costs	309	321	-3.7%
Cost of redundancy and employee legal cases	427	667	-36.0%
Total Staff Costs	1,595	1,886	-15.4%
Number of employess (end of year)	8,862*	9,250	-4.2%

* This number includes 577 workers whose employment ended as of January 1, 2005.

Management Report for the Financial Year 2004

Other Costs

There was a 8.4% decrease in other costs, mainly caused by lower consulting costs, decrease in costs for business trips, reduced bank charges memberships and other fees, as well as decreases for provisions for charges and other risks.

Consolidated Operating Profit

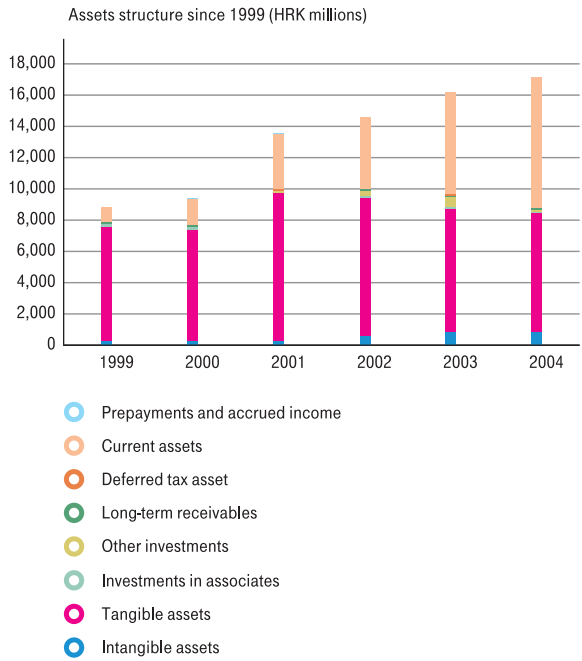
The consolidated operating profit increased by 25.7% as compared to the previous year. This increase was mainly generated by increased revenues from mobile communications and, to a lesser degree, by decreased total staff costs as a result of the previous redundancy programs. Also profit before taxes from ordinary activities has increased by same 25.7% as a result of increase in net financial income.

Taxation

The corporate income tax rate in Croatia is 20%. Total income tax calculated for the year 2004 amounted to HRK 482 million. This increase in current tax expenses compared to 2003 was due mainly to an increase in the amount of profits before tax. Deferred tax in the amount of HRK 44 million resulted from the difference between deferred tax liability (HRK 50 million) and deferred tax assets (HRK 6 million).

Consolidated Net Profit

In 2004 consolidated net profit amounted to HRK 1,924 million, compared to HRK 1,488 million in 2003. This increase in net profit resulted from the increased total operating income, with mobile communications as its main driver, as well as increased financial income.



Financial Condition

Consolidated Balance Sheet

Total consolidated assets at the end of 2004 amounted to HRK 17,239 million, representing an increase of 3.8% over 2003. Increase in consolidated assets was driven by an increase in current assets, which grew by 16.5% to HRK 7,622 million, mainly as a result of increase in cash and cash equivalents.

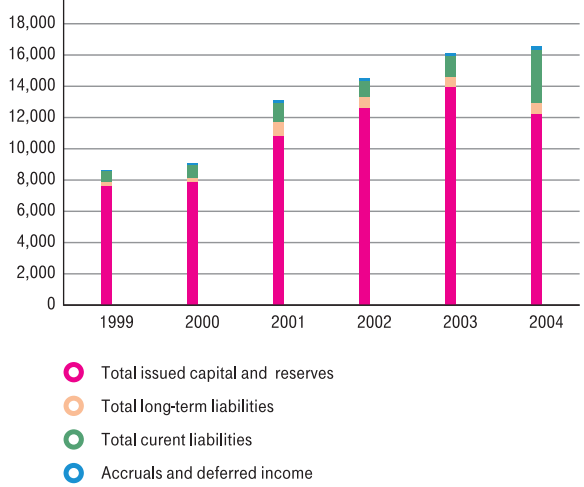
Total consolidated liabilities amounted to HRK 4,471 million as of December 31st, 2004, which represents an increase of 114% compared to 2003. This change in total liabilities corresponds to the following changes: (i) long-term liabilities amounting to HRK 639 million decreased by 8.5%, mainly as a result of a lower deferred tax liability; (ii) current liabilities amounting to HRK 3,534 million increased by 212.2% mainly due to increased dividend payable, and to a degree to increased trade account payables, as well as to increased income tax payables; (iii) accruals and deferred income amounting to HRK 298 million increased by 15.1%.

Growth in total consolidated liabilities is due primarily to the growth of current liabilities. Out of total amount of current liabilities HRK 1,798 million relates to the dividend payable, according to the decision of General Assembly from December 22nd, 2004. In addition HRK 606 million relates to accrued liabilities for redundancy.

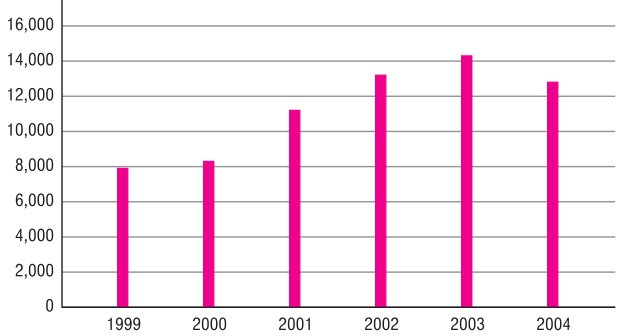
As of December 31st, 2004 the consolidated shareholders' equity amounted to HRK 12,768 million, which represents a decrease of 12% compared to the amount at December 31st, 2003. Moreover, retained earnings, which should be viewed in conjunction with the changes in revaluation reserves, decreased considerably in 2004. (The release of revaluation reserves to retained earnings corresponds to the difference between depreciation based on the revalued carrying amount of property, plants and equipment, on the one hand, and depreciation based on the original cost of property, plants and equipment, on the other.)

As a result of decisions made by T-HT's General Assembly during 2004, dividends to shareholders in the amount of HRK 3,674 million (HRK 149 million in June + HRK 3,525 million in December) were announced, resulting in a decrease of retained earnings.

Liabilities structure since 1999 (HRK millions)



Total shareholders equity since 1999 (HRK millions)



Management Report for the Financial Year 2004

These decreases are actually beneficial in terms of T-HT's still underleveraged balance sheet and improved KPIs.

Consolidated Net Debt

Net debt further decreased by 21.5%, and currently stands at HRK -6.296 million, mainly as the result of further increases in marketable securities as well as cash and cash equivalents.

Consolidated Cash Flow

Net cash provided by inflows from operating activities amounted to HRK 3,792 million in 2004, an increase of 42.0% compared to 2003. This is primarily the result of an increased operating profit, decreased outflows for taxes, and increases in payables and accruals.

The net cash inflow from investment activities amounted to HRK 1,091 million in 2004 and was mainly due to Increases in net proceeds generated from sale of current financial assets, and increases in interest received. The net cash outflow for financing activities

amounted to HRK 1,889 million in 2004, and was set off by dividend payments amounting to HRK 1,876 million, which constituted a major part of this outflow, while the repayment of long-term borrowings amounted to only HRK 13 million.

HT's consolidated net cash and cash equivalents position improved by HRK 3,009 million in 2004 alone.

Reconciliation of Pro Forma Figures

Special Influence

Redundancy

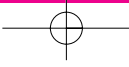
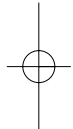
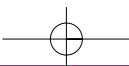
Redundancy costs of the Company and the Group include the net amount of severance payments of HRK 35 million and HRK 39 million for 758 and 777 employees, respectively, whose employment contracts have been or will be terminated by the end of 2004 or beginning of 2005 and HRK 193 million for 1,075 employees whose employment contracts will be

terminated during 2005 due to business reasons, in a case if the employment for these workers will not be assured. The Working Council of the Company has been informed of the intention of the Management Board regarding the forthcoming redundancy and termination of employment contracts with its employees. The full amount of these costs estimated to be incurred has been recognized as an expense in the current period.

The accompanying amounts of contributions and taxes for the Company and the Group are HRK 171 million and HRK 174 million, respectively.

Legal Cases

An out-of-court settlement was reached with the majority of employees regarding the remainder of unpaid Christmas bonuses for 2001, in accordance with the collective bargaining agreement. The total amount paid for this purpose in 2004 was HRK 21 million, which was regarded as a current period expense.







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 Privatization 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.

During 2002, HT mobilne komunikacije d.o.o. ("HTmobile") was founded as a separate legal entity and subsidiary wholly owned by HT d.d. for providing

the mobile telecommunication services. HTmobile commenced its commercial activities on 1 January 2003, until that time GSM and NMT services were provided by HT d.d. During 2003, the process of the mobile telecommunication business separation into HTmobile was finalized.

Principal activities

The principal activities of HT d.d. and its subsidiary T-Mobile Croatia d.o.o. (together "HT Group" or "the Group") comprise the provision of telecommunication services, and the design and construction of communication 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 T-Mobile Croatia d.o.o. supported by four corporate units (CEO corporate unit, Financial corporate unit, Human resources corporate unit and Corporate services unit). During 2003, the Group's regional presence was organized through four regions, previously the Group was organized through twenty Telecomm centres.

In addition to providing fixed line telephony services (access and traffic through fixed telephone lines and additional fixed network services), the Group operates Internet (T-Com Online), data services (Leased lines, ATM, X25 and Frame relay) and analogue (NMT) and GSM mobile telephone networks called MOBITEL and CRONET, respectively.

Significant events

During 2004, HT Group has performed the rebranding process and took a new corporate identity as of 1 October 2004. Consequently, HT Group has become a part of the global "T" family of its Parent Company Deutsche Telekom. The new brand name was formed by adding the letter "T" to the company's previous brand name, Hrvatski Telekom. By doing that, HT Group has become T-Hrvatski Telekom, or T-HT. The change of identity on a corporate level, forming of trade marks was followed for two separate segments of the Group, T-Com and T-Mobile. T-Com consists of fixed network operations (ex HTtel) and Internet access services (ex HTnet), and mobile segment of the Group officially change the name of the company from HT mobilne komunikacije d.o.o. into T-Mobile Croatia d.o.o.

The strategic and partner relationship between HT Group and Deutsche Telekom which commenced in 2000 has resulted, in the Company's strong development and transformation to modern telecommunication group that is willing to use all advantages of global recognized trade marks in its improvements of future business operations and continue to be strong competitor in telecommunication market.

"T" trade mark is currently used in thirty countries worldwide. The usage of its advantages means further improvements of domestic telecommunication market by implementing of international standards of doing business, timely involvement in global

Corporate profile (continued)

technological trends, and complete orientation to its customers. Synergy with the “T” trade mark will enable more simple communication of products and services, equal quality and level of introducing new products and services for each customer independently where he is placed. By changing the brand name, Hrvatski Telekom into T-HT, it became first Croatian Group that prepares itself for entering into European market in a such way.

On 18 October 2004 T-Mobile Croatia d.o.o. has obtained a licence for the provision of UMTS (Universal Mobile Telecommunication System) services based on which they can provide third generation mobile telephony services.

In December 2004, T-Mobile has decided to shut down the NMT network by the end of March 2005. Various incentives are planned for migration of NMT users to GSM by the end of March 2005.

Financial review and strategy

The Company and the Group have continued to develop the range of its new services and additional customer-orientated approach in providing fixed, mobile, data and internet services. The Group intensively continues to prepare for harder and stronger competition and for the complete de-regulation of telecommunication market.

The customer is in our focus of doing business. The Company is implementing new technologies, developing new products and services, and improving complete relation to customers. In January 2003, the fixed telephony market in the Republic of Croatia was de-regulated. In 2004, concessions for providing telecommunication services in the field of fixed telephony was granted by regulatory body to two new operators and they have announced quick entering into fixed telephony market during 2005. In addition, there is third operator in mobile telephony. The Group is preparing for all strategic challenges and by quality relationship with its customers, constant restructuring of the Company and increasing of operation efficiency, creating preconditions for maintaining of the leader position in all market segments in which the Group operates.

During 2004, the Group experienced continued revenue growth from the mobile services as a result of an increase in subscribers. The Group's revenues from telecommunication services for 2004 were HRK 8,118 million (2003: HRK 7,840 million), of which HRK 4,148 million relate to fixed line telephony, HRK 2,909 million to mobile telephony, HRK 514 million to carrier services and HRK 547 million to data and Internet services (2003: HRK 4,176 million, HRK 2,467 million, HRK 674 million and HRK 523 million, respectively). Profit of the Group from ordinary

activities before tax for the year was HRK 2,406 million (2003: HRK 1,914 million). The net profit of the Group for the financial year amounted to HRK 1,924 million (2003: HRK 1,488 million). Long and short-term borrowings of the Group at 31 December 2004 amounted to HRK 18 million (2003: HRK 31 million). Cash and cash equivalents of the Group at 31 December 2004 amounted to HRK 5,302 million (2003: HRK 2,293 million).

The Group's and the Company's operating profit in 2004 was significantly impacted by redundancy costs in the amount of HRK 406 million and HRK 399 million, respectively (see Note 6), a significant increase of revenue in T-Mobile while in T-Com a focus is on broadband strategy which will secure additional revenue in following periods.

An advantage of the Company and the Group is the ability of using an integrated telecommunication operator position and the fact that the Company and the Group are part of global Deutsche Telekom Group which brand name has been used by them since 1 October 2004. Result of that and the Company's and the Group's final goal is to create new values for its customers, shareholders and business partners with full social responsibility towards its employees and society at the same time.

Corporate profile (continued)

Directors and management

Supervisory Board

The members of the Supervisory Board who served during 2004 and subsequently are as follows:

Gerhard Mischke	President	From 22 October 2004
	Member	From 19 October 2004
Horst Hermann	President	Until 22 October 2004
	Member	From 22 October 2004
Ana Hrastović	Deputy president	Until 17 June 2004
	Member	From 26 March 2004
Miroslav Kovačić	Member	From 26 March 2004
	Deputy president	From 17 June 2004
Dr. Ralph Rentschler	Member	From 15 December 2003
Michael Günther	Member	From 24 October 2001
Zvonimir Puljić	Member	From 26 March 2004
Josip Pupiće	Member	From 9 October 2004
Siegfried Pleiner	Member	From 16 October 2002
Joachim Kregel	Member	Until 30 September 2004
Ivan Milić	Member	Until 26 March 2004
Milan Stojanović	Member	Until 26 March 2004
Antun Rimac	Member	Until 28 September 2004

Management Board

The members of the Management Board who served during 2004 and subsequently are as follows:

Ivica Mudrinić	President	From 28 December 1998
Werner Hohenadel	Member	From 1 March 2003
Wolfgang Breuer	Member	From 19 July 2002
Ivana Šoljan	Member	From 1 September 2002
Manfred Ohl	Member	From 1 May 2004
Božana Cathy Gregoire	Member	From 10 January 2005
Branka Skaramuča	Member	Until 29 February 2004

Corporate profile (continued)

Statement of responsibilities of the Management Board

Pursuant to 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 Group and 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;
- judgments 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 Group and 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 Group and 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 Group and 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 22 February 2005.

HT - Hrvatske telekomunikacije d.d.
Savska cesta 32
10000 Zagreb
Republic of Croatia

22 February 2005

On behalf of the Management Board,



I. Mudrinić
President 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 2004, as set out on pages 8 to 54 prepared under the accounting policies set out on pages 18 to 25. 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 2004 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, 22 February 2005

Slaven Đuroković

Consolidated HT Group income statement

For the year ended 31 December 2004

	Notes	2004 HRK millions	2003 HRK millions
Operating income			
Revenue	3	8,118	7,840
Other income		231	188
Total operating income		8,349	8,028
Material costs			
a) Cost of raw materials, consumables and merchandise		(551)	(432)
b) Other material costs and costs of services	4	(1,837)	(1,760)
Staff costs			
a) Gross wages and salaries		(859)	(898)
b) Taxes, contributions and other payroll costs		(309)	(321)
c) Costs of redundancy and employees legal cases	6	(427)	(667)
Work performed by the Company and capitalised		48	23
Depreciation and amortisation of fixed assets	5	(1,354)	(1,299)
Impairment of property, plant and equipment	5	(57)	-
Write down of current assets		(151)	(186)
Other costs	7	(741)	(809)
Total operating costs		(6,238)	(6,349)
Operating profit		2,111	1,679
Financial income		299	195
Financial expense		(7)	(2)
Share of profits of associates	11	3	42
Profit before taxes from ordinary activities		2,406	1,914
Taxation	8	(482)	(426)
Net profit for the year		1,924	1,488

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 2004

	Notes	2004 HRK millions	2003 HRK millions
Operating income			
Revenue	3	5,569	5,790
Other income		390	457
Total operating income		5,959	6,247
Material costs			
a) Cost of raw materials, consumables and merchandise		(250)	(250)
b) Other material costs and costs of services	4	(1,667)	(1,795)
Staff costs			
a) Gross wages and salaries		(747)	(801)
b) Taxes, contributions and other payroll costs		(261)	(282)
c) Costs of redundancy and employees legal cases	6	(420)	(667)
Work performed by the Company and capitalised		48	23
Depreciation and amortisation of fixed assets	5	(990)	(982)
Write down of current assets		(99)	(93)
Other costs	7	(500)	(633)
Total operating costs		(4,886)	(5,480)
Operating profit		1,073	767
Financial income		271	222
Financial expense		(7)	(1)
Dividend income from subsidiary	20	653	-
Share of profits of associates	11	3	42
Profit before taxes from ordinary activities		1,993	1,030
Taxation	8	(277)	(226)
Net profit for the year		1,716	804

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

Consolidated HT Group balance sheet

As at 31 December 2004

	Notes	2004 HRK millions	2003 HRK millions
ASSETS			
Fixed assets			
Intangible assets	9	976	788
Property, plant and equipment	10	8,277	8,819
Investments in associates	11	98	98
Other investments	12	121	246
Long-term receivables		37	39
Deferred tax asset	8	65	44
Total fixed assets		9,574	10,034
Current assets			
Inventories	13	224	279
Debtors	14	1,210	1,321
Investments	12	675	776
Time deposits	27 b)	211	1,876
Cash and cash equivalents	27 a)	5,302	2,293
Total current assets		7,622	6,545
Prepayments and accrued income		43	27
TOTAL ASSETS		17,239	16,606

Consolidated HT Group balance sheet (continued)

As at 31 December 2004

	Notes	2004 HRK millions	2003 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	18	8,189	8,189
Legal reserves	19	265	190
Retained earnings	20	849	2,910
Revaluation reserves	21	1,522	1,722
Fair value reserves		19	18
Net profit for the year		1,924	1,488
Total issued capital and reserves		12,768	14,517
Long-term liabilities			
Provisions	17	94	111
Employee benefit obligations	16	131	113
Deferred tax liability	8	381	431
Long-term loans		12	20
Other long-term liabilities		21	23
Total long term-liabilities		639	698
Current liabilities			
Dividend payable	20	1,798	-
Trade payables and other current liabilities	15	997	812
Provisions for redundancy	6	606	281
Income tax payable		127	28
Short-term borrowings and current portion of long-term loans		6	11
Total current liabilities		3,534	1,132
Accruals and deferred income		298	259
Total liabilities		4,471	2,089
TOTAL EQUITY AND LIABILITIES		17,239	16,606

Signed on behalf of HT d.d. on 22 February 2005:

I. Mudrinić



W. Hohenadel



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

HT d.d. balance sheet

As at 31 December 2004

	Notes	2004 HRK millions	2003 HRK millions
ASSETS			
Fixed assets			
Intangible assets	9	490	478
Property, plant and equipment	10	6,862	7,277
Investment in subsidiary		1,478	1,478
Investments in associates	11	98	98
Other investments	12	121	246
Long-term receivables		37	39
Deferred tax asset	8	38	44
Total fixed assets		9,124	9,660
Current assets			
Inventories	13	156	213
Debtors	14	864	951
Receivables from subsidiary		107	181
Dividend receivables from subsidiary	20	653	-
Investments	12	675	776
Time deposits	27 b)	211	1,876
Cash and cash equivalents	27 a)	4,201	1,990
Total current assets		6,867	5,987
Prepayments and accrued income		8	5
TOTAL ASSETS		15,999	15,652

HT d.d. balance sheet (continued)

As at 31 December 2004

	Notes	2004 HRK millions	2003 HRK millions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	18	8,189	8,189
Legal reserves	19	230	190
Retained earnings	20	200	2,910
Revaluation reserves	21	1,522	1,722
Fair value reserves		19	18
Net profit for the year		1,716	804
Total issued capital and reserves		11,876	13,833
Long-term liabilities			
Provisions	17	91	108
Employee benefit obligations	16	126	109
Deferred tax liability	8	381	431
Long-term loans		12	20
Other long-term liabilities		21	23
Total long-term liabilities		631	691
Current liabilities			
Dividend payable	20	1,798	-
Trade payables and other current liabilities	15	637	551
Provisions for redundancy	6	599	281
Payables to subsidiary		225	164
Income tax payable		80	-
Short-term borrowings and current portion of long-term loans		6	7
Total current liabilities		3,345	1,003
Accruals and deferred income		147	125
Total liabilities		4,123	1,819
TOTAL EQUITY AND LIABILITIES		15,999	15,652

Signed on behalf of HT d.d. on 22 February 2005:

I. Mudrinić



W. Hohenadel



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

Consolidated HT Group cash flow statement

For the year ended 31 December 2004

	Notes	2004 HRK millions	2003 HRK millions
Net profit		1,924	1,488
Depreciation charges	5	1,354	1,299
Impairment loss of property, plant and equipment	5	57	-
Write up of inventories		-	(54)
Income tax expense	8	482	426
Interest income		(293)	(158)
Loss on disposal of assets		53	18
Share of profit / (loss) of equity-accounted investments	11	3	(42)
Decrease in inventories		55	29
Decrease in receivables and prepayments		14	51
Increase / (Decrease) in payables and accruals		222	(20)
Increase in employee benefit obligations	16	18	14
Interest paid		(1)	(2)
Provisions - non-cash items		322	338
Other non-cash items		(16)	7
Taxes paid		(402)	(724)
Net cash inflow from operating activities		3,792	2,670
Cash flows used in investing activities			
Purchase of non-current assets	9,10	(1,117)	(1,001)
Purchase of non-current financial assets		(11)	(3)
Proceeds from sale of non-current assets		8	14
Proceeds from sale of non-current financial assets		135	176
Purchase of current financial assets		(937)	(2,592)
Proceeds from sale of current financial assets		2,701	1,637
Interest received		309	173
Dividend received		3	-
Net cash inflow / (outflow) from investing activities		1,091	(1,596)
Cash flows from financing activities			
Repayment of long-term borrowings		(13)	(50)
Dividends paid		(1,876)	(187)
Net cash outflow from financing activities		(1,889)	(237)
Effect of F/X rate changes on cash and cash equivalents		15	20
Net increase in cash and cash equivalents		3,009	857
Analysis of changes in cash and cash equivalents:			
At 1 January		2,293	1,436
Net cash inflow		3,009	857
At 31 December	27 a)	5,302	2,293

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 2004

	Notes	2004 HRK millions	2003 HRK millions
Net profit		1,716	804
Depreciation charges	5	990	982
Write up of inventories		-	(54)
Income tax expense	8	277	226
Interest income		(264)	(184)
Loss on disposal of assets		8	16
Share of profit / (loss) of equity-accounted investments	11	3	(42)
Decrease in inventories		56	90
Decrease in receivables and prepayments		75	264
Increase in dividend receivable from subsidiary	20	(653)	-
Increase / (Decrease) in payables and accruals		204	(331)
Increase in employee benefit obligations	16	17	10
Interest paid		-	(1)
Provisions - non-cash items		277	354
Other non-cash items		(13)	3
Taxes paid		(190)	(552)
Net cash inflow from operating activities		2,503	1,585
Cash flows used in investing activities			
Purchase of non-current assets	9,10	(602)	(614)
Purchase of non-current financial assets		(11)	(3)
Proceeds from sale of non-current assets		5	392
Proceeds from sale of non-current financial assets		135	176
Purchase of investments		(937)	(2.531)
Investment in subsidiary		-	(60)
Proceeds from sale of investments		2,701	1.637
Interest received		283	209
Dividend received		3	-
Net cash inflow / (outflow) from investing activities		1,577	(794)
Cash flows from financing activities			
Repayment of long-term borrowings		(8)	(50)
Dividends paid		(1,876)	(187)
Net cash outflow from financing activities		(1,884)	(237)
Effect of F/X rate changes on cash and cash equivalents		15	20
Net increase in cash and cash equivalents		2,211	574
Analysis of changes in cash and cash equivalents:			
At 1 January		1,990	1,416
Net cash inflow		2,211	574
At 31 December	27 a)	4,201	1,990

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

Consolidated HT Group statement of changes in equity

For the year ended 31 December 2004

	Subscribed share capital HRK millions	Revaluation reserves HRK millions	Legal reserves HRK millions	Other reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Net profit for the year HRK millions	Total HRK millions
Balance as at 1 January 2003	8,189	1,964	97	(796)	-	1,880	1,864	13,198
Allocation of net income	-	-	93	796	-	788	(1,677)	-
Depreciation transfer, net of related deferred tax of HRK 60 million	-	(242)	-	-	-	242	-	-
Dividends paid	-	-	-	-	-	-	(187)	(187)
Profit for the financial year	-	-	-	-	-	-	1,488	1,488
Fair value of investments	-	-	-	-	18	-	-	18
Balance as at 31 December 2003	8,189	1,722	190	-	18	2,910	1,488	14,517
Allocation of net income	-	-	75	-	-	1,413	(1,488)	-
Depreciation transfer, net of related deferred tax of HRK 50 million	-	(200)	-	-	-	200	-	-
Dividends paid	-	-	-	-	-	(1,876)	-	(1,876)
Dividends declared	-	-	-	-	-	(1,798)	-	(1,798)
Profit for the financial year	-	-	-	-	-	-	1,924	1,924
Fair value of investments	-	-	-	-	1	-	-	1
Balance as at 31 December 2004	8,189	1,522	265	-	19	849	1,924	12,768

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 2004

	Subscribed share capital HRK millions	Revaluation reserves HRK millions	Legal reserves HRK millions	Other reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Net profit for the year HRK millions	Total HRK millions
Balance as at 1 January 2003	8,189	1,964	97	(796)	-	1,880	1,864	13,198
Allocation of net income	-	-	93	796	-	788	(1,677)	-
Depreciation transfer, net of related deferred tax of HRK 60 million	-	(242)	-	-	-	242	-	-
Dividends paid	-	-	-	-	-	-	(187)	(187)
Profit for the financial year	-	-	-	-	-	-	804	804
Fair value of investments	-	-	-	-	18	-	-	18
Balance as at 31 December 2003	8,189	1,722	190	-	18	2,910	804	13,833
Allocation of net income	-	-	40	-	-	764	(804)	-
Depreciation transfer, net of related deferred tax of HRK 50 million	-	(200)	-	-	-	200	-	-
Dividends paid	-	-	-	-	-	(1,876)	-	(1,876)
Dividends declared	-	-	-	-	-	(1,798)	-	(1,798)
Profit for the financial year	-	-	-	-	-	-	1,716	1,716
Fair value of investments	-	-	-	-	1	-	-	1
Balance as at 31 December 2004	8,189	1,522	230	-	19	200	1,716	11,876

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

Notes to the financial statements

For the year ended 31 December 2004

1 Status of HT d.d. and HT Group

HT - Hrvatske telekomunikacije d.d. ("HT d.d." or the "Company") 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 Savska cesta 32, 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 commenced its commercial activities on 1 January 2003. The headquarters of HTmobile is Ulica grada Vukovara 23, Zagreb, Croatia. On 1 October 2004, HTmobile has changed its registered name to T-Mobile Croatia d.o.o.

The total number of employees of the Group and the Company as at 31 December 2004 was 8,862 and 7,854 (2003: 9,250 and 8,262), respectively.

2 Summary of accounting policies

A summary of the significant 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 2004, 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 for:

- Property, plant and equipment carried at revalued amounts (Note h);
- Investments held for trading and available-for-sale stated at fair value (Note s); 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, T-Mobile Croatia d.o.o. All intra-group transactions and balances are eliminated.

d) Measurement currency

The Company'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 2004 was HRK 5.64 (2003: HRK 6.12) per United States Dollar (USD) and HRK 7.67 (2003: HRK 7.65) per Euro. All amounts disclosed in the financial statements are stated in millions of HRK if not otherwise stated.

e) Investment in subsidiary

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

f) 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 less any impairment in value. 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.

g) Intangible fixed assets

Intangible fixed assets are measured initially at cost. Intangible assets are recognised in the event that the future economic benefits that are attributable to the assets will

Notes to the financial statements (continued)

For the year ended 31 December 2004

2 Summary of accounting policies (continued)

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 amortisation method is reviewed annually at each financial year-end.

Useful lives of intangible assets are as follows:

Patents and concessions	5 - 10 years
Software	5 years
Other assets	5 years

h) Property, plant and equipment

Property, plant and equipment are stated at revalued amounts which consist of their fair value on the date of revaluation less accumulated depreciation and any accumulated impairment loss. Independent property revaluations are performed when the carrying amount becomes materially different from the fair values. 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 most recent 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	25 - 50 years
Cables	12 - 18 years
Cable ducts and tubes	30 years
Equipment	5 - 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.

Notes to the financial statements (continued)

For the year ended 31 December 2004

2 Summary of accounting policies (continued)

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

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

i) Impairment of assets

■ Financial instruments

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement.

■ Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income or treated as a revaluation decrease for property, plant and equipment that are carried at 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.

j) Inventories

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

k) Receivables

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

l) Foreign currencies

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

m) Operating leases

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

n) Taxation

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2004

2 Summary of accounting policies (continued)

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the balance sheet.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

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

o) Employee benefit obligations

The Company provides benefits for all employees (see Note 16). The obligation and costs of one off retirement 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.

p) 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, calls placed by fixed line subscribers and revenue from additional services in fixed telephony.

Revenue from carrier services includes 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 T-Mobile'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, frame relay, X.25, ATM, VPN, revenue from Internet subscription, ADSL traffic, fixed line access, WEB hosting, VPN and revenue from Internet traffic to T-Com Online call number.

q) Cash and cash equivalents

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

r) Borrowings

Borrowing costs, which include interest and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings, are expensed in the period in which they are incurred.

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

s) Investments

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

Notes to the financial statements (continued)

For the year ended 31 December 2004

2 Summary of accounting policies (continued)

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.

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 settlement date.

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

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

t) Provisions

A provision is recognised when, and only when, the Company has a present obligation (legal or constructive) as a result of a past event and it is probable 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.

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

u) Revaluation reserves

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

v) Contingencies

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

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

w) Subsequent events

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

x) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to the financial statements (continued)
For the year ended 31 December 2004

3 Revenue

a) Revenue - by business

	HT group 2004 HRK millions	HT group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Revenue from fixed telephony	4,148	4,176	4,152	4,179
Revenue from mobile telephony	2,909	2,467	-	-
Revenue from carrier services	514	674	863	1,087
Revenue from Internet services	300	280	303	280
Revenue from data services	247	243	251	244
	8,118	7,840	5,569	5,790

b) Revenue - by geographical area

	HT group 2004 HRK millions	HT group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Republic of Croatia	7,367	7,028	5,183	5,268
Rest of the World	751	812	386	522
	8,118	7,840	5,569	5,790

4 Other material costs and costs of services

	HT group 2004 HRK millions	HT group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Domestic interconnect - fixed telephony	441	478	873	947
International settlements - fixed telephony	269	292	269	292
Advertising costs	216	250	88	93
Maintenance services	261	285	168	211
International settlements - GSM	113	106	-	-
International settlements - leased lines	13	16	11	16
International settlements - Internet	18	21	18	21
Domestic interconnect - GSM	228	68	-	-
Rent	94	72	72	56
Other costs	184	172	168	159
	1,837	1,760	1,667	1,795

Notes to the financial statements (continued)
For the year ended 31 December 2004

5 Depreciation, amortisation and write down of fixed assets

	HT group 2004 HRK millions	HT group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Depreciation	1,205	1,201	923	945
Amortisation	149	98	67	37
	1,354	1,299	990	982
Impairment loss	57	-	-	-
	1,411	1,299	990	982

Refer to Note 10 for further details on depreciation expense and impairment loss.

6 Costs of redundancy and employee legal cases

Redundancy costs of the Company and the Group include the net amount of severance payments of HRK 35 million and HRK 39 million for 758 and 777 employees, respectively, whose employment contracts have been or will be terminated by the end of 2004 or beginning of 2005 and HRK 193 million for 1,075 employees whose employment contracts will be terminated during 2005 due to business reasons. The Working Council of the Company has been informed of the intention of the Management Board regarding the forthcoming redundancy and termination of employment contracts with its employees. The full amount of these costs estimated to be incurred has been recognized as an expense in the current period.

The accompanying amounts of contributions and taxes for the Company and the Group are HRK 171 million and HRK 174 million, respectively.

During 2004 the Company paid out gross amount of HRK 71 million for severance payments to its employees.

During 2004, the Company and the Group has settled its debt for the difference of unpaid Christmas bonuses for 2001 in accordance with the Branch Collective Agreement effective in 1998 to its current and ex employees in the amount of HRK 21 million. The related costs have been recognized as an expense in the current period.

Notes to the financial statements (continued)
For the year ended 31 December 2004

7 Other costs

	HT group 2004 HRK millions	HT group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Education and consulting costs	167	216	108	171
Bank charges, membership and other fees	137	149	87	114
Daily allowances and other costs of business trips	30	36	21	27
Travel allowances	34	39	30	35
Loss on disposal of fixed assets	48	34	4	23
Security costs	46	48	46	47
Contract workers	20	16	9	9
Expense related to employee benefit obligations (Note 16)	41	42	39	40
Provision for charges and risks (Note 17)	22	65	22	62
Other operating charges	196	164	134	105
	741	809	500	633

Notes to the financial statements (continued)

For the year ended 31 December 2004

8 Taxation

a) Tax on profit

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Current tax expense	553	475	321	275
Deferred tax benefit	(71)	(49)	(44)	(49)
Taxation	482	426	277	226

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

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Profit on ordinary activities before taxation	2,406	1,914	1,993	1,030
Income tax at 20%	481	383	399	206
Tax effects of income not taxable in determining taxable profit:				
Dividends received and incentives	(18)	(13)	(146)	(12)
Related to provision for bad debts	(7)	-	-	-
Tax effects of expenses that give rise to temporary differences not recognised as deferred tax assets:				
Provision for obsolete inventories and fixed assets	3	18	3	18
Provision for bad debts	7	28	7	7
Tax effects of expenses not deductible in determining taxable profit:				
Entertainment expenses	5	3	4	1
Other non-deductible expenses	11	7	10	6
Taxation	482	426	277	226

The deferred tax benefit of HRK 44 million (2003: HRK 49 million) relates to the release of portion of the deferred tax liability recognised as a result of the revaluation of property, plant and equipment in the amount of HRK 50 million (2003: HRK 60 million) and to

the release of the portion 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 in the amount of HRK 6 million (2003: HRK 11 million).

Notes to the financial statements (continued)

For the year ended 31 December 2004

8 Taxation (continued)

The Company has not recognised any deferred tax in respect of non-deductible costs such as provisions for bad debts, obsolete stock and value adjustments of

fixed assets which, in management's opinion, will not meet prescribed conditions to be treated as tax allowable expenses in future periods.

Components of deferred tax assets and liabilities are as follows:

HT Group	Asset		Liability	
	2004	2003	2004	2003
	HRK millions	HRK millions	HRK millions	HRK millions
Property, plant and equipment write down	49	44	-	-
Property, plant and equipment write up	-	-	(381)	(431)
Other non-deductible costs	16	-	-	-
At 31 December	65	44	(381)	(431)

HT d.d.	Asset		Liability	
	2004	2003	2004	2003
	HRK millions	HRK millions	HRK millions	HRK millions
Property, plant and equipment write down	38	44	-	-
Property, plant and equipment write up	-	-	(381)	(431)
At 31 December	38	44	(381)	(431)

Notes to the financial statements (continued)

For the year ended 31 December 2004

8 Taxation (continued)

The deferred tax asset of the Company arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in 2001. Of this amount, HRK 207 million became tax deductible in 2002, 2003 and 2004, and the remaining HRK 188 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:

	2004 HRK millions	2003 HRK millions
At 1 January	431	491
Depreciation transfer from revaluation reserves	(50)	(60)
At 31 December	381	431

Notes to the financial statements (continued)

For the year ended 31 December 2004

9 Intangible assets

HT Group	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 31 December 2003	232	394	96	320	1,042
Additions	175	117	2	74	368
Transfers	2	113	-	(115)	-
Transfers from and to tangible assets	12	-	(84)	(12)	(84)
Disposals	(1)	(4)	-	-	(5)
At 31 December 2004	420	620	14	267	1,321
Accumulated amortization					
At 31 December 2003	78	108	68	-	254
Charge for the year	38	109	2	-	149
Transfers from and to tangible assets	7	-	(60)	-	(53)
Disposals	(1)	(4)	-	-	(5)
At 31 December 2004	122	213	10	-	345
Net book value					
At 31 December 2003	154	286	28	320	788
At 31 December 2004	298	407	4	267	976

The intangible assets of the Group as of 31 December 2004 include the GSM licence with the carrying value of HRK 48 million (2003: HRK 58 million). This licence is amortised over a period of 10 years, which began in September 1999. As of 18 October 2004 T-Mobile has obtained a licence for the provision of UMTS

services for consideration in amount HRK 132 million. Concession is given for a period of 20 years. According to the Concession Agreement it is expected to put it in commercial usage within six months from the date of the licence. Assets under construction primarily relates to software and the various licences for use of software.

Notes to the financial statements (continued)

For the year ended 31 December 2004

9 Intangible assets (continued)

HT d.d.	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 31 December 2003	40	160	89	319	608
Additions	4	37	2	72	115
Transfers	1	113	-	(114)	-
Transfers to tangible assets	-	-	(79)	(12)	(91)
Disposals	(2)	(4)	-	-	(6)
At 31 December 2004	43	306	12	265	626
Accumulated amortization					
At 31 December 2003	23	43	64	-	130
Charge for the year	7	59	1	-	67
Transfers to tangible assets	-	-	(56)	-	(56)
Disposals	(1)	(4)	-	-	(5)
At 31 December 2004	29	98	9	-	136
Net book value					
At 31 December 2003	17	117	25	319	478
At 31 December 2004	14	208	3	265	490

Transfers from and to tangible assets

Transfers from and to tangible assets relates to reclassification of leasehold improvements to tangible assets due to more appropriate presentation of the assets within long-term intangible and tangible assets.

Fully amortised intangible assets

The gross carrying value of fully amortised intangible assets still in use as at 31 December 2004 was HRK 25 million and HRK 28 million, for the Company and the Group respectively (2003: HRK 23 million and HRK 27 million).

Notes to the financial statements (continued)

For the year ended 31 December 2004

10 Property, plant and equipment

Property, plant and equipment is 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.

HT Grupa	Land and buildings HRK millions	Telecomm plant and machinery HRK millions	Tools, vehicles IT and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost or valuation					
At 31 December 2003	1,647	9,651	726	401	12,425
Additions	72	397	53	227	749
Transfers	12	88	73	(173)	-
Transfers from and to intangible assets	84	(12)	-	12	84
Disposals	(1)	(50)	(45)	(24)	(120)
At 31 December 2004	1,814	10,074	807	443	13,138
Accumulated depreciation					
At 31 December 2003	257	3,041	270	38	3,606
Charge for the year	101	977	127	-	1,205
Impairment of assets	-	38	6	13	57
Transfers	-	(22)	22	-	-
Transfers from and to intangible assets	60	(7)	-	-	53
Disposals	(1)	(20)	(24)	(15)	(60)
At 31 December 2004	417	4,007	401	36	4,861
Net book value					
At 31 December 2003	1,390	6,610	456	363	8,819
At 31 December 2004	1,397	6,067	406	407	8,277

Notes to the financial statements (continued)

For the year ended 31 December 2004

10 Property, plant and equipment (continued)

HT d.d.	Land and buildings HRK millions	Telecomm plant and machinery HRK millions	Tools, vehicles IT and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost or valuation					
At 31 December 2003	1,396	7,722	672	280	10,070
Additions	12	228	25	222	487
Transfers	4	125	23	(152)	-
Transfers from intangible assets	79	-	-	12	91
Disposals	(1)	(6)	(11)	(24)	(42)
At 31 December 2004	1,490	8,069	709	338	10,606
Accumulated depreciation					
At 31 December 2003	235	2,288	250	20	2,793
Charge for the year	81	727	115	-	923
Transfers from intangible assets	56	-	-	-	56
Disposals	(1)	(2)	(7)	(18)	(28)
At 31 December 2004	371	3,013	358	2	3,744
Net book value					
At 31 December 2003	1,161	5,434	422	260	7,277
At 31 December 2004	1,119	5,056	351	336	6,862

Included within assets under construction of the Group and the Company are spare parts of HRK 50 million and HRK 42 million (2003: HRK 92 million and HRK 59 million), net of a provision of HRK 32 million and HRK 2 million (2003: HRK 38 million and HRK 20 million), respectively.
Beginning in 2001, HT d.d. has performed additional procedures which have

provided support for the existence of legal title to land and buildings transferred from HPT s p.o. under the Separation Law of 10 July 1998. HT d.d. is still in the process of formally registering this legal title.
The Company does not have any material property, plant and equipment held for disposal, nor does it have any material idle property, plant and equipment.

Notes to the financial statements (continued)

For the year ended 31 December 2004

10 Property, plant and equipment (continued)

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.

Impairment loss

During 2004, T-Mobile performed an impairment review of its property, plant and equipment and recognised an impairment loss related to assets used for telecommunication equipment and related investment material in the amount of HRK 57 million due to its obsolescence and planned modernization in 2005. The recoverable amount of those assets was calculated based on their contracted selling value.

Disposal of property, plant and equipment

The disposal of the Group's property, plant and equipment during 2004 primarily relates to the disposal of obsolete mobile telecommunication machinery and equipment in net book value of HRK 51 million (base stations and related radio equipment) which will be replaced by modern and more quality equipment.

Reclassification of opening balances

Opening balances of certain tangible assets groups have been reclassified due to more precisely presentation of tangible assets in the financial statements. The reclassification has been made in the Group and the Company as follows: telecommunication cables from buildings to telecommunication machinery and equipment of cost amounts to HRK 5,169 million and HRK 5,166 million and related accumulated depreciation of HRK 1,167 million and HRK 1,166 million, flats from other assets to buildings of cost amounts to HRK 14 million and related accumulated depreciation of HRK 2 million and IT equipment from machinery and equipment to other assets of cost amounts to HRK 445 million and HRK 405 million and related accumulated depreciation of HRK 170 million and HRK 155 million, respectively.

Fully depreciated tangible assets

The gross carrying value of the Company's and Group's fully depreciated property, plant and equipment still in use as at 31 December 2004 was HRK 493 million and HRK 696 million, respectively (2003: HRK 256 million and HRK 454 million, respectively).

Notes to the financial statements (continued)

For the year ended 31 December 2004

11 Investments in associates (the Group and the Company)

The net book value of investments in associates comprises:

	2004 HRK millions	2003 HRK millions
HT d.o.o. Mostar	22	22
HP d.o.o. Mostar	2	2
Eronet d.o.o.	74	74
At 31 December	98	98

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

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

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

	2004 HRK millions	2003 HRK millions
The net book value		
At 1 January	98	56
Share of profits	54	42
Dividends paid	(3)	-
Impairment of investments	(51)	-
At 31 December	98	98

Due to loss of the licence for the provision of telecommunication services by Eronet, and management's estimates of the recoverable amount of those investments, the Company performed an impairment assessment of its investments in those associates.

As a result of this review an impairment charge of HRK 51 million is recognised in the income statements.

Notes to the financial statements (continued)

For the year ended 31 December 2004

12 Other investments (the Group and the Company)

	2004 HRK millions	2003 HRK millions
Available-for-sale investments - non-current	121	246
Total non current investments	121	246
Available-for-sale current investments	675	776
Total current investments	675	776

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

Issuer	Interest rate	Maturity	2004 HRK millions	2003 HRK millions
Government Agency for Savings Insurance and Bank Restructuring	8,375%	19 December 2005	64	108
Government of Croatia	6,875%	14 December 2008	34	57
Croatian Institute for Health Insurance	8,5%	19 July 2004	-	71
Government of Croatia	5,5%	10 February 2014	8	-
Other equity securities			15	10
			121	246

Current available-for-sale investments include the following:

	2004 HRK millions	2003 HRK millions
Unit holdings in money market funds:		
ZB Invest d.o.o.	82	-
PBZ Invest d.o.o.	45	84
Raiffeisenbank Invest d.o.o.	43	51
Others	15	5
	185	140
Treasury bills:		
Ministry of Finance of Republic of Croatia	490	636
	675	776

Estimated fair value of units in money market funds and bonds as of 31 December 2004 is determined by reference to their market value at the balance sheet date offered on secondary capital market.

Notes to the financial statements (continued)

For the year ended 31 December 2004

13 Inventories

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Merchandise	87	98	28	40
Inventories and spare parts	137	181	128	173
	224	279	156	213

14 Debtors

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Trade debtors	1,143	1,187	817	827
Other debtors	67	134	47	124
	1,210	1,321	864	951

15 Trade payables and other current liabilities

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Trade payables	798	647	476	432
Accrued liabilities	72	44	54	32
Payroll and payroll taxes	94	92	82	82
VAT and other taxes payable	19	2	19	-
Other creditors	14	27	6	5
	997	812	637	551

Notes to the financial statements (continued)

For the year ended 31 December 2004

16 Employee benefit obligations

The Group and the Company provides benefit 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. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement from the Group and 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 or expense over the expected remaining service life of the active employees. The curtailments of unrecognized prior service cost are recognised in the income statement for the year ended 31 December 2004.

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

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Present value of funded defined benefit obligations	163	201	153	192
Unrecognised actuarial losses	(20)	(77)	(20)	(72)
Unrecognised past service cost	(12)	(11)	(7)	(11)
Net liability	131	113	126	109

Pension expense comprises the following:

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Current service cost	22	17	21	16
Interest expense on obligations	14	17	13	16
Amortisation of past service cost	1	1	1	1
Amortisation of loss	4	7	4	7
Total pension expense	41	42	39	40

Notes to the financial statements (continued)

For the year ended 31 December 2004

16 Employee benefit obligations (continued)

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

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Net liability, beginning of year	113	99	109	99
Net liability, sold to subsidiary	-	-	-	(3)
Net expense recognised in the income statement (Note 7)	41	42	39	40
Payments made under scheme	(26)	(28)	(25)	(27)
Curtailment of unrecognized prior service cost	3	-	3	-
Net liability, end of year	131	113	126	109

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

	2004 %	2003 %
Discount rate (p.a.)	7,0	7,0
Wage and salary increases (annually)	5,0	5,0

17 Provisions

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
At 1 January	111	75	108	75
Additions	45	65	45	62
Utilisation	(39)	(29)	(39)	(29)
Reversal	(23)	-	(23)	-
At 31 December	94	111	91	108

As at 31 December 2004 the Company and the Group has provided certain amounts for several legal actions and claims that management has assessed as likely to be asserted in the future against the Company and the Group, respectively.

Notes to the financial statements (continued)

For the year ended 31 December 2004

18 Share capital

Authorised, issued, fully paid and registered share capital	2004 HRK millions	2003 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 2004.

19 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.

20 Retained earnings

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
At 1 January	2,910	1,880	2,910	1,880
Additions	1,613	1,030	964	1,030
Dividends paid	(1,876)	-	(1,876)	-
Dividends declared	(1,798)	-	(1,798)	-
At 31 December	849	2,910	200	2,910

During 2004 the Company declared dividends in the amount of HRK 3,674 million (HRK 44.86 per share). Out of the total amount, HRK 1,800 million and HRK 76 million was paid in 2004 to Republic of Croatia and Deutsche Telekom AG, respectively. Unpaid amount of HRK 1,798 million relates to dividend payable to the Company's shareholder Deutsche Telekom AG that will be settled at the beginning of 2005.

The Company's wholly owned subsidiary, T-Mobile Croatia d.o.o., declared the dividend in December 2004 in the amount of HRK 653 million that was paid to the Company in February 2005. In addition, on 22 February 2005, the Management Board of the Company proposed a dividend payments to both shareholders resulting from Company's net income realised in 2004 in the amount of HRK 192 million (HRK 2.35 per share).

Notes to the financial statements (continued)

For the year ended 31 December 2004

21 Revaluation reserves (the Group and the Company)

	2004 HRK millions	2003 HRK millions
At 1 January	1,722	1,964
Release of revaluation reserves to retained earnings (net of deferred tax)	(200)	(242)
At 31 December	1,522	1,722

The release of revaluation reserves to retained earnings in the amount of HRK 250 million (2003: HRK 302 million), net of HRK 50 million of deferred tax (2003: HRK 60 million) 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.

Notes to the financial statements (continued)

For the year ended 31 December 2004

22 Commitments

a) Operating lease commitments

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

Operating lease charges:

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Current year expense (Note 4)	94	72	72	56

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

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Within one year	84	58	64	47
Between 2 and 5 years	242	144	178	103
Greater than 5 years	328	213	288	153

The contracts relate primarily to property leases and car leases.

b) Capital commitments

As at 31 December 2004, the Group was committed under contractual agreements to capital expenditures amounting to approximately HRK 161 million (2003: HRK 415 million).

	HT Group 2004 HRK millions	HT Group 2003 HRK millions
Intangible assets	10	208
Property, plant and equipment	151	207
	161	415

Notes to the financial statements (continued)

For the year ended 31 December 2004

23 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 at any time during the three years following the end of the tax year in which the income tax return was submitted. Given the above, tax liabilities of the Company for the years 2001 and thereafter are open to tax review. Currently, the tax authorities are examining the income tax liabilities for years 2000, 2001 and 2002. 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 which could have an effect on the tax charge in the income statement and the current taxation amounts in theses years as well as for the years 2003 and 2004. Absolute statue of limitation for tax authority's examination is six years.

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 will not have a material adverse effect on the financial position of HT d.d. except for certain claims for which provision was established (see Note 17).

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) Billing interval

The State Inspectorate of the Republic of Croatia (hereinafter: the State Inspectorate), on January 29, 2004, started an investigation on the implementation of the provisions of the Law on Consumer Protection

regarding a method of charging public voice services. Namely, the Company charges intervals of 60 seconds for national calls and intervals of 15 seconds for fixed to mobile and international calls. The State Inspectorate is investigating allegations pursuant to which the applied charging method should be per 1 second instead of intervals the Company is currently charging. If the State Inspectorate will conclude that the Company must charge customers on per second basis, it may pass a resolution pursuant to which (i) the Company must return to the residential customers overcharged amounts from the day of application of the Law on Consumer Protection (September 2003) until the date of resolution; and (b) the Company would be prohibited to further charge per 60 or per 15 seconds and that per 1 second charging should be applicable method. There has been no development on this issue since mid 2004. However, a new Bylaw on telecommunication services was brought into force as 1 January 2005 which requires the Group to introduce at least one tariff package that will have billing interval of 1 second. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than 1 second that was the subject of the State Inspectorate investigation. Nevertheless, the Company is unable to assess whether the current investigation that is performed by State Inspectorate will result in material liability, and therefore, no provision is recorded in the financial statements as at 31 December 2004.

Notes to the financial statements (continued)

For the year ended 31 December 2004

24 Balances and transactions with related parties (the Group)

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 2004 and 2003. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 59 million (2003: HRK 76 million).

The main transactions with related parties during 2004 and 2003 were as follows:

Company	Revenue		Expenses	
	2004 HRK millions	2003 HRK millions	2004 HRK millions	2003 HRK millions
T-Systems ITS, Germany	67	149	38	45
HT Mostar, Bosnia and Herzegovina	33	43	35	38
T-Mobile, Germany	44	32	9	6
Others	65	47	35	26
Total international settlements	209	271	117	115
Deutsche Telekom AG, Germany	-	-	54	63
T-Systems Nova, Germany	-	-	5	40
Others	1	-	20	11
Total intercompany services	1	-	79	114
T-Systems Nova, Germany	-	-	19	45
Deutsche Telekom AG (T-Dach), Germany	-	-	28	-
Others	-	-	7	7
Total capital expenditures	-	-	54	52
Total related parties	210	271	250	281

Costs of rebranding that were incurred during 2004 have been compensated by the Parent Company, Deutsche Telekom AG (T-Dach) in the amount of HRK 97 million.

Notes to the financial statements (continued)

For the year ended 31 December 2004

24 Balances and transactions with related parties (the Group) (continued)

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

Company	Revenue		Expenses	
	2004	2003	2004	2003
	HRK millions	HRK millions	HRK millions	HRK millions
T-Systems ITS, Germany	31	87	21	31
HT Mostar, Bosnia and Herzegovina	103	85	96	71
T-Mobile, Germany	3	6	2	5
Others	9	11	11	13
Total international settlements	146	189	130	120
Deutsche Telekom AG, Germany	-	-	54	52
T-Systems Nova, Germany	-	-	5	17
Deutsche Telekom AG (T-Dach), Germany	65	-	5	-
Others	-	-	14	-
Total intercompany services	65	-	78	69
Total related parties	211	189	208	189

Notes to the financial statements (continued)

For the year ended 31 December 2004

25 Financial instruments (the Group and the Company)

The Company is exposed to international service-based markets. 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.

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 14) net of provisions for impairment recognised at the balance sheet date.

Additionally, the Group and the Company are exposed to risk through cash deposits in the banks.

Management of the risk is focused on dealing with most reputable banks in foreign and domestic ownership in the domestic market and on contacts with the banks on a daily basis.

b) Liquidity risk

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

Any excess cash is invested mostly in available forsale 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 translated

at the prevailing middle exchange rate of Croatian National Bank at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect short-term cash flows.

Significant amount of deposits in the banks are made in foreign currency, primarily in Euro. As there is no adequate balance in Euro denominated liabilities at the balance sheet date, the Group and the Company are exposed to translation foreign currency risk.

d) Fair value estimation

The fair value of securities included in available for sale investments is estimated by reference to their quoted market price at the balance sheet date. The Company's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other receivables, long-term receivables, trade and other payables. The carrying amount of cash and cash equivalents and of bank deposits approximates their fair value due to the shortterm maturity of these financial instruments. Similarly, the historical cost carrying amounts of receivables and pa-yables, including provisions, which are all subject to normal trade credit terms approximate their fair values.

Notes to the financial statements (continued)

For the year ended 31 December 2004

26 Service Concession Arrangements (the Group and the Company)

The Group is part to the following concession agreements:

a) **Concession Agreement for the performance of telecommunication 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 Concession 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 Concession Agreement conditions may be revised upon the agreement of both parties.

Concession fees for Public Voice Services amounts 0.2% (2003: 0.5%), leased line services 0.1% (2003: 0.2%), value added services 1% and other

telecommunication services 1% realised from gross annual revenue are effective in 2004.

After the expiry of HT d.d.'s exclusive rights in the fixed network on 1 January 2003, the Law on Telecommunications stipulates adjusting of the Concession Agreement with provisions of the Law. HT d.d. has 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 37 of the Law on Telecommunications (NN 122/03, 158/03, 177/03).

The Concession Agreement can be terminated or suspended by the Government of the Republic of Croatia with twelve months notice if HT d.d. after issuance of a third warning from the Government if it fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Law on Telecommunications or of relevant Subordinate Legislation.

The Concession Agreement defines certain network buildout targets which HT d.d. has met as of 31 December 2002, but the Government (through Ministry) i.e. authorized regulatory body may set new, reasonably achievable, service quality standards.

Prices for telecommunication services that are rendered by HT d.d. and for which authorized regulatory body determined that HT d.d. has significant market power on public voice service market in fixed network and leased telecommunication lines market have to be cost driven and pre-approved by authorized regulatory body in accordance with Article 63 Paragraph 3 of the Law on Telecommunications.

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

Pursuant to these Agreements, T-Mobile Hrvatska d.o.o. (ex HTmobile) 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 analogue mobile 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

Notes to the financial statements (continued)

For the year ended 31 December 2004

26 Service Concession Arrangements (the Group and the Company) (continued)

ones, concluded between the Government of the Republic of Croatia and HT d.d. In addition, the company HT mobilne komunikacije d.o.o. changed its name into T-Mobile Hrvatska d.o.o. as of 1 October 2004 ("T-Mobile").

On 13 December 2004, Croatian Agency for Telecommunication and T-Mobile have signed Agreement on Termination of the NMT Concession Agreement which defines that T-Mobile will shut down its NMT network at 31 March 2005. All annual fees were paid in accordance with valid regulations (annual concession fee of HRK 4 million, annual radio frequency fee of HRK 12 thousand and annual fee of HRK 150 per each mobile radio station).

The GSM Concession Agreement lasts for 10 years starting from 16 September 1999. In addition to the initial concession fee paid in amount of HRK 100 million, T-Mobile currently pays an annual concession fee HRK 5 million for the GSM Concession.

T-Mobile also has to pay annual frequency fee of HRK 100 thousand per one duplex channel pursuant to the GSM Concession.

In addition, T-Mobile has to pay annual fee of HRK 150 per one mobile radio station (i.e. subscriber) in GSM network. However, T-Mobile has the right to recharge this fee to its subscribers.

The Concessionaire has to develop GSM network in such a way that in every moment the network meets certain prescribed quality parameters.

The Council of Croatian Agency for Telecommunications ("the Telecommunication 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.

According to Concession Agreement, the Telecommunication Council shall not grant any new concession for the provision of telecommunications services in GSM network in frequency band of 900 MHz before 31 October 2005.

c) Concession Agreements for Telecommunication Services with the usage of radio frequency spectrum in third generation mobile network system - UMTS
The Telecommunication Council has on 14 July 2004 published the Tender for frequencies for the provision of public telecommunication services with the usage of radio frequency spectrum in mobile GSM/DCS 1800 and UMTS network. After cancelling the Tender for giving the concession, the new Tender was published by the Telecommunication Council on 22 October 2004.

In accordance with Article 31 of Regulation on Concessions and licences for the provision of telecommunication services, T-Mobile was only obliged to submit the official request in order to obtain concession for performance of public telecommunication services with the usage of radio frequency spectrum in third generation mobile network system (UMTS), The Telecommunication Council has on 18 October 2004 made the Decision on granting the UMTS concession

for whole territory of Republic of Croatia (national level) to T-Mobile for the period of 20 (twenty) years.

In accordance with above mentioned Decision, as of 8 November 2004, the Croatian Agency for Telecommunications has performed technical review for fulfilling the conditions for signing the UMTS Concession Agreement.

Based on this Decision, T-Mobile and the Telecommunication Council have signed an UMTS Concession Agreement on 16 December 2004.

T-Mobile is obliged to start with provision of telecommunication services and activities resulting from UMTS Concession Agreement in the period of six months from the date of signing this Concession Agreement, at the latest. Based on this Concession Agreement, T-Mobile is obliged to pay an annual fee for second and every next year of providing telecommunication services amounts to 1% of the total revenue realized in UMTS mobile network, at the latest within 45 days from 18 October every year, concerning that the initial concession fee in the amount of HRK 132 million has been already paid.

In addition, T-Mobile is obliged to pay an annual fee for granting and usage of radio frequency amounts to HRK 5 million per each granted frequency block of 5 MHz in UMTS network, at the latest within 45 days from 18 October every year, concerning that an annual fee for the first year in the amount of HRK 20 million has been already paid.

Notes to the financial statements (continued)

For the year ended 31 December 2004

27 Cash and cash equivalents and time deposits

a) Cash and cash equivalents

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

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
Cash on hand and balances with banks	5,152	2,168	4,051	1,865
Short-term investments	150	125	150	125
Cash and cash equivalents	5,302	2,293	4,201	1,990

Short-term investments relate to the purchase of treasury bills from Ministry of Finance of Republic of Croatia with initial maturity up to 3 months that bear an interest rate in range from 5.00% to 5.25%.

b) Time deposits

Time deposits are accounts that bear interest from 6.00% to 6.25% and that Company is entitled to withdraw with prior notice.

Time deposits, denominated in HRK and euro, are held with the following domestic banks:

	2004 HRK millions	2003 HRK millions
Privredna banka Zagreb d.d.	-	533
Zagrebačka banka d.d.	51	521
Erste Steiermarkische Bank d.d.	100	335
Raiffeisenbank Austria d.d.	60	237
Hypo Alpe Adria Bank d.d.	-	124
Hrvatska poštanska banka d.d.	-	101
Volksbank d.d.	-	25
	211	1,876

Notes to the financial statements (continued)

For the year ended 31 December 2004

27 Cash and cash equivalents and time deposits (continued)

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

	HT Group 2004 HRK millions	HT Group 2003 HRK millions	HT d.d. 2004 HRK millions	HT d.d. 2003 HRK millions
HRK	4,224	2,629	3,209	2,481
EUR	1,239	1,520	1,183	1,378
USD	50	20	20	7
	5,513	4,169	4,412	3,866

28 Subsequent events

No events or transactions have occurred since 31 December 2004 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require mention in a note to the financial statements.

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