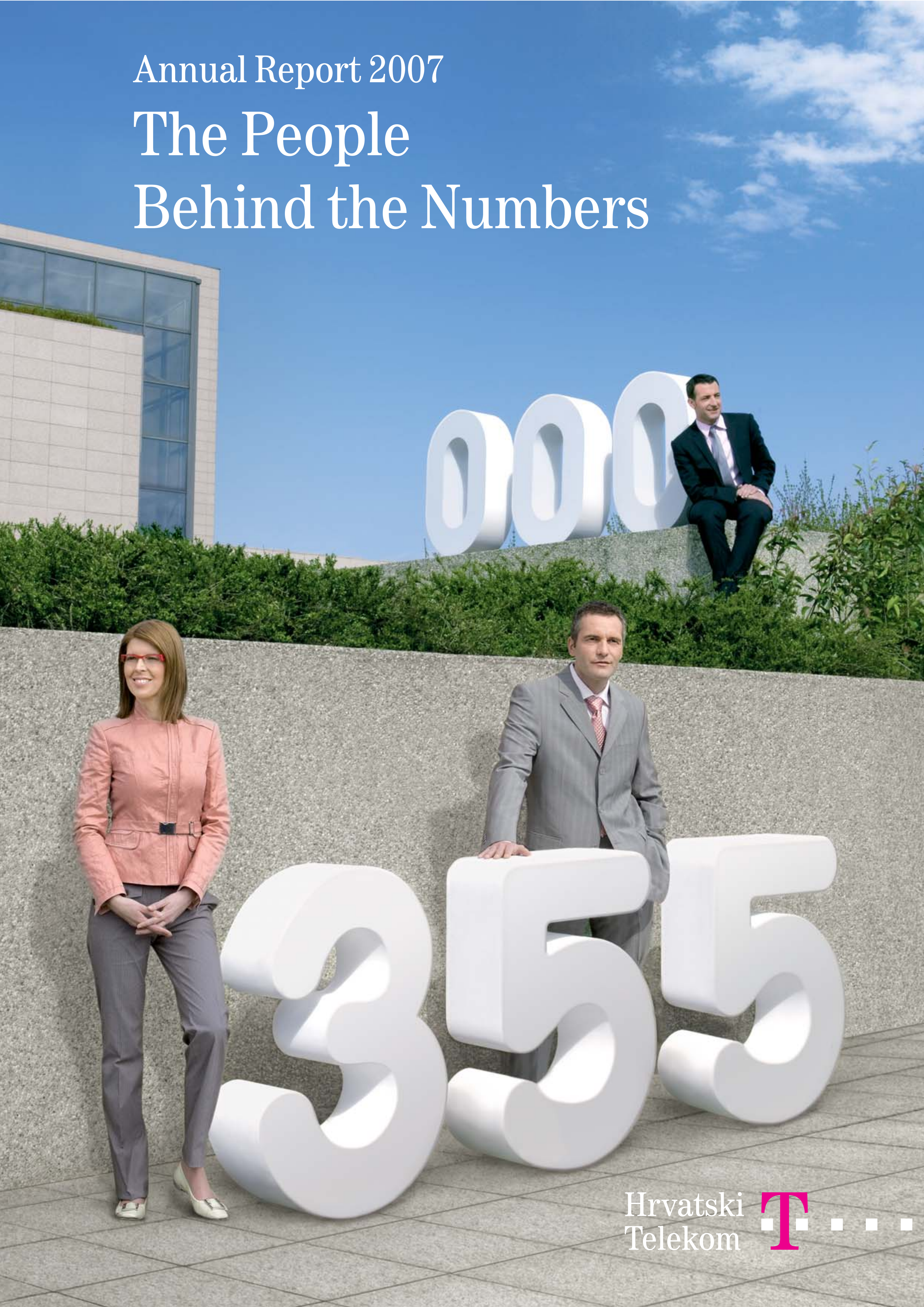
Annual Report 2007

The People Behind the Numbers



Hrvatski Telekom

Financial Highlights - IFRS HT Accounting Policies

T-HT Group

	Jan-Dec 2007 HRK millions	Jan-Dec 2006 HRK millions	% of change 07/06
Revenues	8,838	8,636	2.3%
EBITDA before exceptional items	4,050	4,060	-0.2%
EBITDA	3,955	4,041	-2.1%
EBIT (Operating profit)	2,519	2,571	-2.0%
Net profit	2,471	2,214	11.6%
EBITDA margin before exceptional items	45.8%	47.0%	-1.2 p.p.
EBIT margin	28.5%	29.8%	-1.3 p.p.
Net profit margin	28.0%	25.6%	2.3 p.p.
CAPEX	1,248	1,425	-12.4%
CAPEX/Revenues ratio	14.1%	16.5%	-2.4 p.p.
	At 31 Dec 2007	At 31 Dec 2006	% of change 07/06
ROE	19.5%	18.4%	1.1 p.p.
Financial leverage ratio	0.22	0.21	0.9%
Quick ratio	3.24	3.37	-4.0%
Number of employees	6,724	7,498	-10.3%

Balance Sheet

	At 31. December 2007 HRK millions	At 31. December 2006 HRK millions	% of change 07/06
Total non current assets	7,741	7,684	0.7%
Total current assets	7,551	7,774	-2.9%
Total assets	15,292	15,458	-1.1%
Total issued capital and reserves	12,575	12,731	-1.2%
Total non current liabilities	454	472	-3.8%
Total current liabilities	2,263	2,255	0.3%
Total equity and liabilities	15,292	15,458	-1.1%

T-Com Segment

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

Internet Services			
Internet access customers			
Number of Internet subscribers	482,867	409,556	17.9%
Dial-up users	746,652	732,574	1.9%
Active dial-up users	137,942	193,808	-28.8%
ADSL mainlines	344,925	215,748	59.9%
IPTV customers	43,734	5,805	653.4%
Fixed-line customers	881	799	10.3%
VPN connection points	1,383	877	57.7%
Total no. of minutes spent online for dial-up customers (thsd min)	**1,188,865**	**1,639,995**	**-27.5%**

T-Mobile Segment

Key operational data	December 2007	December 2006	% of change A07/06
Subscribers			
No. of pre-paid subscribers	1,700,042	1,603,318	6.0%
No. of post-paid subscribers	684,817	554,715	23.5%
Total T-Mobile subscribers	2,384,859	2,158,033	10.5%
% of post-paid subscribers	29.0%	26.0%	3.0 p.p.
Minutes of use (MOU)			
MOU per average subscriber	127.4	117.2	8.7%
Average revenue per user (ARPU) (HRK)			
Blended ARPU (monthly average for the year in HRK)	131.1	136.0	-3.6%
Blended non-voice ARPU (monthly average for the year in HRK)	25.1	23.3	8.1%
Subscriber Aquisition Cost (SAC) per gross add	**273.0**	**358.1**	**-23.7%**
Churn rate (%)			
Churn rate total	1.28	1.08	0.2 p.p.
Churn rate post-paid	0.73	1.09	-0.4 p.p.
Churn rate pre-paid	1.49	1.07	0.4p.p.
Penetration	**115.0**	**100.4**	**14.6 p.p.**
Market share of subscribers (%)	**46.7**	**49.1**	**-2.4 p.p.**
Market share by revenue (%) (1)	**52.7**	**53.6**	**-1.0 p.p.**

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

Presentation of Information in the Annual Report

Unless the context otherwise requires, references in this publication to ''T-HT Group'' or ''the Group'' or "T-HT" are to the Company HT - Hrvatske telekomunikacije d.d., together with its subsidiaries.
References to ''HT'' or the ''Company'' are to the Company HT - Hrvatske telekomunikacije d.d.
References to ''T-Mobile'' are to the Company's wholly-owned subsidiary, T-Mobile Croatia d.o.o., which also functions as the Group's mobile operations business unit.
References to ''T-Com'' are to the Group's other business unit which is responsible for the fixed network, wholesale, broadband, data and on-line services.
References to ''Iskon'' are to the Company's wholly-owned subsidiary, Iskon Internet d.d, which forms part of the T-Com business unit.
References in this publication to ''NRA'' are to the Croatian Agency for Telecommunications.

Agenda

On 5 October 2007,
more than 355,000 Croatian
citizens purchased T-HT shares

Letter to Shareholders

Dear Shareholders,
I am pleased to be able to share with you the highlights of the T-HT results in 2007. Our Company has continued to be the market leader in all segments of telecommunications services on the Croatian market. The key to our success lies in our customer focus and the high quality all-encompassing telecommunications product and services portfolio that we offer, on highest quality networks.

Since October 2007 T-HT has been listed on the Zagreb and London stock exchanges. This represents a fundamental change in our Company's positioning. Although the Company has always operated with full responsibility to its shareholders, the high level of interest shown by private and institutional investors during the IPO, and especially the interest shown by Croatian citizens, has additionally motivated and inspired all T-HT employees to continue strengthening the Company's market position. As a result of our Company's performance and the high cash position, the Management Board and Supervisory Board have proposed to the General Assembly of HT-Hrvatske telekomunikacije d.d. a dividend of HRK 29.56 per share, a 100% payout rate of the 2007 net profit.

Although the competition intensified in 2007, T-HT Group succeeded in meeting our targets, maintaining our leading market position in all key segments. The 2007 telecommunications market was shaped by rapid growth in broadband services and expansion in mobile communications.

In 2007, T-Mobile, our subsidiary for mobile communications services, maintained its leading position on the mobile communications market. Our attractive offers and recognized quality resulted in an increased subscriber base, reaching 2.4 million customers. We saw an increase in average minutes of use and a shift to more postpaid customers on the one hand and a decrease in prices on the other, enabling a growth in unconsolidated T-Mobile revenues by 5.1% compared to 2006. T-Mobile ended the year with only a slight fall in its market share based on revenues (from 53.6% to 52.7%). T-Mobile has started the year 2008 with ambitious goals and new projects, expecting growth in the number of subscribers and data services.

I am especially pleased that the Croatian market continues to value the T-Com, our fixed line services division, enjoying high quality and additional services such as ADSL or IPTV. Hence, in spite of the growth of mobile voice communications, our fixed line business has recorded only a slight decline in comparison to 2006, making the Company's performance unique in comparison to other incumbent operators in the region. Attractive offers and enriched multi-media Internet content have contributed to the growth of MAXadsl, our broadband service, to an impressive number of 344,925 subscribers, which is an increase of 59.9% compared to December 2006. MAXtv, T-Com's interactive digital television service, ended the year with 43,734 users with a multitude of programming offered in the basic and the premium packages. The T-Com Internet medium, T-Portal, kept its leading position on the Croatian web market and increased the number of visitors compared to 2006. We expect to reach 450,000 ADSL users by the end of 2008, which should result in a significant increase in revenues from broadband services. We also expect continued growth in the number of MAXtv users.

In order to ensure full coordination between T-Com and T-Mobile and optimal market positioning, at the beginning of 2007 we aligned the management responsibilities at the T-HT Group level.

T-HT Group strategy remains focused on retention and acquisition of customers based on quality of our services, continued improvements in efficiency and growth and innovation. We have demonstrated a clear strategic focus and the ambition to grow and develop our operations, but not at any cost. We have seriously considered only those mergers and acquisitions that are strategically justified and that would create value for our shareholders. In accordance with this strategy, in 2008 we intend to participate in the expected privatization of HT Mostar, in which we already hold a 39.1% stake and we have management participation. In addition, we will continue to monitor and assess all other expansion opportunities.

In order to promote a performance culture, during 2007 a performance based management system was extended to all Company's employees. The Company is devoted to continuous training in order to keep pace with technological and market developments. More than 3,000 of our employees participated in various education programs during the course of 2007. T-HT continued restructuring, including employee redundancy programs, in order to ensure efficient processes as part of our efforts to maintain our leading market position. We continued a constructive dialogue with our social partners looking for optimal solutions for the challenges related to our employees and in order to develop socially responsible policies.

We maintained strong financial performance: consolidated revenues increased by 2.3% compared to 2006 and amounted to HRK 8,838 million. EBITDA, before special influences, remained stable at HRK 4,050 million with a 45.8% margin. Net profit was 2,471 HRK million, with an 11.6% increase in comparison to 2006, mainly due to a one-time income related to our investment in HT Mostar, while operating cash flow remained strong.

One of the basic values of our Company is related to our responsibility to the community in which we operate. T-HT has established regular cooperation with educational, cultural and scientific institutions, and with non-governmental associations that promote civil society values. We have continued with our contribution to the community, both by initiating humanitarian projects and supporting cultural, educational and sporting activities at the Group level and through the activities of T-Com and T-Mobile.

We support, via KulTurist, many important cultural events throughout the country. T-Com and T-Mobile sponsor sports such as football and sailing. We are also partners of the Croatian Olympic Committee.

We at T-HT believe that employee participation in the general advancement of the community is very important. In 2007, for the second time, we carried out a project called "Together We Are Stronger" within which our employees proposed educational and cultural projects worthy of donations, which T-HT subsequently supported.

Dear Shareholders, I truly believe that the Company's strategic objectives, together with its operating and financial performance to date, represent an excellent basis for continued successful operations in 2008. We will continue to work in accordance with our three key strategic principles: growth and innovation, strengthening customer relationships and focusing on quality and efficiency. Our Company, the Management Board, all the managers and employees will continue to focus on achieving the best possible results, and thus meeting your expectations.

I would like to extend my sincere appreciation to all the shareholders for their trust, to the Group employees for their motivation, hard work and enthusiasm, and to colleagues on the Management Board and Supervisory Board for their support.

Zagreb, March 2008

Ivica Mudrinić
President of the Management Board

Corporate Profile

At a Glance

The T-HT Group is the leading provider of telecommunications services in Croatia, offering fixed and mobile telephony services, as well as wholesale, Internet and data services. The Group conducts its business through the T-Com Business Unit (which is not a separate legal entity), T-Mobile and a number of other subsidiaries.

The basic activities of Croatian Telecom Inc., T-Mobile Croatia LLC, and other subsidiary companies comprise the provision of telecommunications services, design and construction of telecommunications networks on the territory of the Republic of Croatia. In addition to the provision of fixed telephony lines services (fixed telephony line access and traffic, as well as fixed network supplementary services), the Group also provides Internet services, data transmission services (lease of lines, ATM, X25 and Frame Relay), operating with GSM and UMTS mobile telephone networks.

History and Incorporation

HT - Hrvatske telekomunikacije d.d. (HT d.d. or the Company) is a joint stock company majority-owned by Deutsche Telekom AG (DTAG). It was incorporated on 28 December 1998 in the Republic of Croatia, pursuant to the provisions of the Act on the Separation of Croatian Post and Telecommunications into Croatian Post and Croatian Telecommunications, by which the business operation of the former HPT - Hrvatska pošta i telekomunikacije (HPT s p.o.) was separated and transferred into two new joint stock companies, HT - Hrvatske telekomunikacije d.d. ("HT d.d.") and HP - Hrvatska pošta d.d. (HPd.d.). The Company commenced its 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% share in HT d.d. to DTAG, and on 25 October 2001 DTAG purchased a further 16% share in HT d.d. and thus became the majority shareholder with a 51% share in ownership. As of 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families, pursuant to the Law on Privatization of HT d.d. (Official Gazette No. 65/99 and 8/2001).

During 2002, HT mobilne komunikacije d.o.o. (HTmobile) was established as a separate legal entity and subsidiary wholly owned by HT d.d. for the provision of mobile telecommunication services. HTmobile commenced its commercial activities on 1 January 2003, and in October 2004, the company name was officially changed to T-Mobile Croatia d.o.o. (T-Mobile).

On 1 October 2004, the Company was re-branded as T-HT, thus becoming a part of the global „T“ family of Deutsche Telekom. The change of identity at corporate level was followed by the creation of trade marks for the two separate business units of the Group: the fixed network operations business unit, T-Com, which also provides wholesale, Internet and data services, and the mobile operations business unit, T-Mobile.

As of 30 May 2006, the Group acquired 100% of shares of Iskon Internet d.d., one of the leading alternative providers in Croatia.

Pursuant to the provisions of the Law on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 2007, the Republic of Croatia sold 32.5% of T-HT ordinary shares by Initial Public Offering (IPO). From the 32,5% of shares, 25% went to Croatian retail, while 7.5% were distributed among Croatian and international institutional investors.

Investor Information

IPO and Share Price Performance

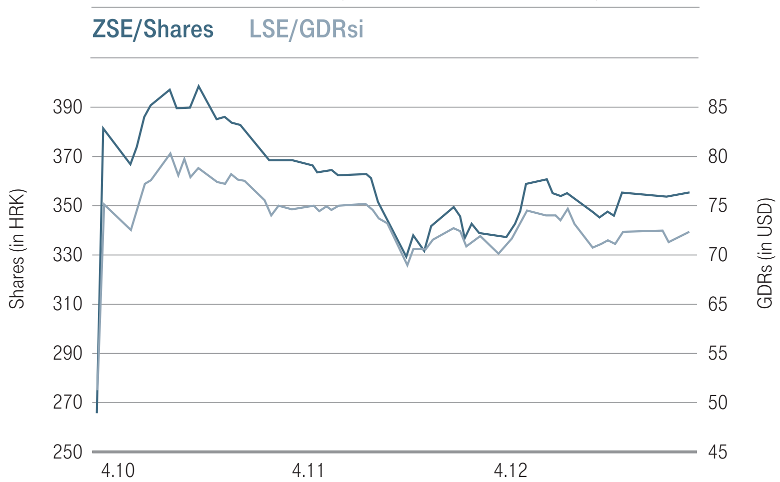
On 5 October 2007, the Republic of Croatia sold 32.5% of T-HT existing ordinary shares ("Shares") by Initial Public Offering (IPO), thus reducing its shareholding from 42% to 9.5%, of which 7% of Shares are reserved for offering to current and former employees and 2.5% for bonus shares under the IPO retail preferential offering. T-HT's IPO was a landmark event on the Croatian capital market in 2007, with the total offering stake of 32.5% allocated as follows: 25% to Croatian retail and 7.5% to Croatian and international institutional investors. More than 355,000 Croatian citizens took advantage of the preferential offering and became T-HT shareholders. Since 5 October 2007, T-HT ordinary shares have been listed on the Zagreb Stock Exchange (ZSE), while Global Depositary Receipts (GDRs) have been listed on the London Stock Exchange (LSE).
The first day of trading was marked by very strong trading volumes: based on the IPO offer price of HRK 265, the Shares closed up by 43% at HRK 380 (with the intra-day peak and all time high of HRK 419). In the following months, the share price was influenced by the unfavourable overall situation on the Croatian capital market, global concerns about US recession and a slowdown in China's economic growth, as well as investor profit-taking (see Chart below). T-HT shares ended the year on ZSE at HRK 354, while period high and period low closing prices were HRK 398 and HRK 330, respectively.
T-HT shares were the most actively traded shares on ZSE in 4Q 2007.
As at 31 December 2007, T-HT market capitalisation reached approximately HRK 29 billion or EUR 4 billion.

Shareholder structure
as at 31. 12. 2007

9.5%	Republic of Croatia
7%	War Veterans Fund
32.5%	Free Float
51%	Deutsche Telekom

Total number of Shares = 81,888,535

T-HT Share Performance (4. 10. 2007 - 31. 12. 2007)



Notes:
1) Closing prices were used
2) Trading started on 5.10.2007. For illustrative purposes, the IPO offer price of 265 HRK per Share was used for 4.10.2007

Dividend

On 13 August 2007, the Company and its major shareholders entered into a Memorandum of Understanding which specified the dividend policy as follows: the future dividend policy shall be that any dividends declared and paid in respect of any year following the year in which the Offering takes place shall range from 50% to 100% of the Company's distributable profits earned in the preceding year. Any annual dividend shall depend on the overall financial position of the Company and its working capital needs at the relevant time (including but not limited to the Company's business prospects, cash requirements, financial performance, and other factors including tax and regulatory considerations, payment practices of other European telecommunications operators and the general economic climate). The Management Board and Supervisory Board of HT-Hrvatske telekomunikacije d.d. are proposing to this year's General Assembly, to be held on April 21, the distribution of a dividend of HRK 29.56 per share for the 2007 financial year, resulting in a total dividend payment of HRK 2.4 billion. This represents a dividend payout ratio of 100%. In April 2007, the General Assembly of the Company declared a dividend payment to shareholders resulting from the Company's results for 2006 in the amount of HRK 207 million (HRK 2.53 per share), which was paid in May 2007. On 6 September 2007, the General Assembly of the Company declared an extraordinary dividend payment to shareholders in the amount 2,410 million (HRK 29.43 per share), which was paid in September 2007.

Financial Calendar

	Date
Release of full year 2007 results	February 28, 2008
The General Assembly of the Company	April 21, 2008
Release of first quarter 2008 results	May 8, 2008
Release of first half 2008 results	August 7, 2008
Release of first nine months 2008 results	November 6, 2008

The above-mentioned dates are subject to change.

General Information on Shares and GDRs

Shares:	ISIN: HRHT00RA0005
Regulation S GDRs:	ISIN: US4432962078
Rule 144A GDRs:	ISIN: US4432961088
ZSE Share trading symbol:	HT-R-A
LSE GDR trading symbol:	THTC
Portal Rule 144A GDR listing symbol:	P443296108
Number of Shares:	81,888,535
Type:	Ordinary share
Nominal value:	HRK 100

Each GDR represents one Share on deposit with the Custodian.

The depository for the GDR is:
JPMorgan Chase Bank, N.A.,
4 New York Plaza,13th Floor
New York
New York 10004
United States of America

The Custodian is:
Privredna Banka Zagreb
Račkoga 6
10000 Zagreb
Croatia

Investor Relations

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Management Board

Ivica Mudrinić

President of the Management Board and CEO

Ivica Mudrinić was born in 1955. He graduated in electrical engineering from the University of Toronto in 1978. His first job was in the Product Development Department of Motorola Communications, and in 1985 he founded 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, he became Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 was appointed Minister. From 1994 Ivica Mudrinić also served as President of the Telecommunications Council. He held the post of President of the Management Board of Hrvatska radiotelevizija (Croatian Radio and Television) from 1996 until 15 October 1998, when he was appointed CEO of Hrvatska pošta i telekomunikacije (Croatian Post and Telecommunications). Since the separation of Croatian Post and Telecommunications on 1 January 1999, he has served as President of the Management Board of HT-Hrvatske telekomunikacije.

Ivana Šoljan

Member of the Management Board, Chief Operating Officer Fixed and Broadband and CEO of T-Com Executive Board

Ivana Šoljan was born in 1964. She studied Comparative Literature and English at the Faculty of Philosophy and Theatre Directing 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 as co-founder and chief producer at the private commercial

television Z3 (1988-1990). At the beginning of 1990 she worked for the American company Mooney LeSage and later returned to work in the media as marketing and sales manager (Globus, 1991-1992), a Member of the Board of the OTV TV station (1993-1995), Director of Strategic Planning and Development and Director of Sales and Distribution (EPH, 1995-1999) and founder and Managing Director of Klik Multimedia (January-March 2000). After Klik Multimedia was sold to Iskon, she became a Member of the Management Board of Iskon and assumed responsibility for Sales, Marketing and Content. In September 2002, she was appointed Member of the Management Board of HT-Hrvatske telekomunikacije and Chief Operating Officer Online. Since July 2003, she has been a Member of the Steering Committee for Fixed Line Business. In November 2003, she was appointed project sponsor responsible for leading the processes of the interim organisation of the fixed network project. Since March 2005, she has held the position of COO T-Com and CEO of T-Com Executive Board.

Rainer Rathgeber

Member of the Management Board and Chief Operating Officer Mobile, President of the Management Board and CEO of T-Mobile Croatia

Rainer Rathgeber was born in 1964. He earned a degree in economics from the University in Passau. He started his career by working for the prominent consulting companies A.T. Kearney and Roland Berger, based in Germany and Latin America. Five years ago, he joined the team of T-Mobile International, working in the area of strategy, market management, service development and regulatory issues. In 2004, he became responsible, as Executive Vice President, for the development of T-Mobile International market, covering all T-Mobile markets in Europe. At the session of the Supervisory Board of HT-Hrvatske telekomunikacije held on 8 September 2006, Rainer Rathgeber was appointed Member of the Management Board of T-HT and Chief Operating Officer Mobile, and President of the Management Board and Chief Executive Officer of T-Mobile Croatia.

Irena Jolić Šimović

Member of the Management Board and Chief Human Resources Officer

Irena Jolić Šimović was born in 1969. She graduated from the Faculty of Economics in Zagreb and received an MBA from IEDC, Bled, Slovenia. Prior to joining HT-Hrvatske telekomunikacije, she worked at Croatian Radio and Television (HRT) and the Ministry of the Sea, Transport and Communications and Ministry of Immigrations. She has been working in senior management positions at HT-Hrvatske telekomunikacije since 1998. Before being appointed to her current position, she was Executive Director for Corporate Strategy and Transformation. She successfully managed the processes of the company's transformation and reorganization and contributed to the positive changes in T-HT. As Chief Human Resources Officer, Ms. Jolić Šimović is changing the direction of the HR function from operational delivery towards business support. Irena Jolić Šimović has been Chief Human Resources Officer since 1 August 2006.

Jürgen P. Czapran

Member of the Management Board and Chief Financial Officer, Member of the Management Board and CFO of T-Mobile Croatia

Jürgen P. Czapran was born in 1952, in Singen, Germany. He started his career as a graduate economist in 1979 with Philips GmbH, where he served as director for more than 20 years, primarily in the area of consumer electronics and customer communications. In 2000, he was appointed Executive Vice President of Financial Controlling in T-Mobile International, and in December 2004 he took the position of Member of the Management Board and Chief Financial Officer of T-Mobile Croatia. At the Supervisory Board Session held on 12 February 2007, he was appointed Member of T-HT Management Board and Chief Financial Officer.

Božidar Poldrugač

Member of the Management Board and Chief Technical and Chief Information Officer Group, Member of the Management Board and CTO of T-Mobile Croatia

Božidar Poldrugač was born in 1967. He graduated from the Faculty of Electrical Engineering and Computing, Zagreb University in 1992 and earned a master's degree from the same faculty in 2000, focusing on mobile communications and network migrations between second and third generation mobile telephony. He began his career at Croatian Post & Telecommunications in 1993. Since 1994, he has participated in all the development activities related to implementation of the first GSM network in Croatia. After the separation of Croatian Post & Telecommunications, he continued his career in Hrvatski Telekom, where he served as Member of the Management Board and Director for Mobile Communications from October 1999 to October 2001. He was Chief Technical Officer for Mobile Communications at Hrvatski Telekom from October 2001 to 1 January 2003, when the subsidiary company was founded - HT Mobile Communications LLC (today T-Mobile Croatia). In the newly founded company, he became Member of the Management Board and CTO of HT Mobile Telecommunications LLC. Since November 2001, he has been a standing member of the Technology Board of T-Mobile International. In January 2003, he also became a standing member of the TMO Information Technology Board. At the session of the Supervisory Board of T-HT on 13 March 2007, he was appointed Member of the Management Board and Chief Technical and Chief Information Officer Group.

Manfred Ohl

Member of the Management Board and Chief Services Officer until 15 March 2007

Katharina Hollender

Member of the Management Board and Chief Financial Officer until 31 January 2007

Supervisory Board

Gerhard Mischke,
President of the Supervisory Board until 12 February 2007
Member until 23 April 2007

Michael Günther
President of the Supervisory Board from 12 February 2007
Member until 12 February 2007

Miroslav Kovačić
Deputy President

Horst Hermann
Member

Fridbert Gerlach
Member from 23 April 2007

Ana Hrastović
Member

Dr. Ralph Rentschler
Member

Miljenko Boban
Member

Josip Pupić
Member

Siegfried Pleiner
Member

Supervisory Board's Report

Pursuant to Article 263, paragraph 3, and Article 300.c, paragraph 2, of the Companies Act and Article 31 of the Articles of Association of HT - Hrvatske telekomunikacije d.d., the Supervisory Board of HT - Hrvatske telekomunikacije d.d. Zagreb, Savska cesta 32, (hereinafter: the "Company"), consisting, on the day of issuance of this report, of Mr. Michael Guenther, Chairman of the Supervisory Board, Mr. Miroslav Kovačić, Deputy Chairman of the Supervisory Board, Mr. Gerlach Fridbert, Ms. Ana Hrastović, Mr. Horst Hermann, Dr. Ralph Rentschler, Mr. Siegfried Pleiner, Mr. Miljenko Boban and Mr. Josip Pupić, 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 2007 and on the results of the examination of the business and financial reports for the business year 2007

The content of this report includes:

1 in which manner and to which extent the managing of the company has been monitored by the Supervisory Board during the business year 2007,

2 the results of the examination of the annual financial statements as at 31 December 2007 together with auditor's report as well as of the proposal for the utilization of the profit

3 the results of the examination of the Management Board report on the status of business operations for the business year 2007

4 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 an additional 16% of ordinary registered shares of HT on 25 October 2001 and thus became the majority shareholder with 51% ownership stake.

By transferring 7% of its shares to the Fund of Homeland War Veterans and Their Family Members (hereinafter: the "Fund"), which is, as of 12 April 2005, registered as a HT shareholder on its securities account at the Central Depositary Agency with a 7% ownership stake, the Republic of Croatia became the shareholder of the Company with a 42% ownership stake.

At its session held on 15 June 2007, the Croatian Government, representing the Republic of Croatia, passed the Decision on Sales of Shares of HT-Hrvatske telekomunikacije d.d. by Public Offering.

Through the public offering, shares were sold to Croatian citizens under pre-emptive right and special privilege and to national and international institutional investors without any privileges.

Following the closing of the IPO and official listing of HT d.d. shares on the Zagreb Stock Exchange and the listing of Global Depository Receipts (GDR) representing HT d.d. shares on the London Stock exchange, as of 5 October 2007, the Republic of Croatia become a minority shareholder with a 9.5 % ownership stake.

The remaining 32.5% of the shares of the Company are owned by Croatian citizens and national and international institutional investors. On the day of issuance of this Report, 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 2007, the composition of the Supervisory Board of the Company changed as follows: Due to changes in the responsibilities at DT's board level, the Chairman of the Supervisory Board, Mr. Gerhard Mischke, resigned from the position of Chairman of the Supervisory Board with effect as of 12 February 2007. Later, he resigned from the position of Member of the Supervisory Board with effect as of 23 April 2007. Mr. Michael Guenther was elected Chairman of the Supervisory Board as of 12 February 2007.
Mr. Fridbert Gerlach was elected Member of the Supervisory Board of T-HT for the term of office of four (4) years, with commencement as of 23 April 2007.
Mr. Horst Hermann was re-elected Member of the Supervisory Board of HT - Hrvatske telekomunikacije d.d. for another term of office (four (4) years), effective from 1 July 2007.
Mr. Ralph Rentschler, Ph.D., was re-elected Member of the Supervisory Board of HT - Hrvatske telekomunikacije d.d. for another term of office (four (4) years), effective from 16 December 2007.

Audit Committee

On the day of issuance of this report: Mr. Horst Hermann, Chairman, Ms. Ana Hrastović, Member, and Mr. Siegfried Pleiner, Member, are the members of the Committee.
The Audit Committee was supported in 2007 by Mr. Kay Nolden as Advisor.

Remuneration Committee

On the day of issuance of this report: Mr. Michael Günther, Chairman, Mr. Miroslav Kovacic, Member and Dr. Ralph Rentschler, Member, 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. The following section lists the changes in the Management Board membership:
Ms. Katharina Hollender was promoted within DT Group and she resigned from the position of Member of the MB and Chief Financial Officer. The Supervisory Board acknowledged the termination of her term of office as of 1 February 2007.
Mr. Juergen P. Czapran was appointed Management Board Member and Chief Financial Officer for a period of four (4) years, with commencement as of 12 February 2007.
Pursuant to the mutual agreement with the Member of the Management Board of HT d.d. and GCSO, the Supervisory Board determined the termination of the term of office of Mr. Manfred Ohl as Member of the Management Board and GCSO, as of 15 March 2007.
Mr. Božidar Poldrugač was appointed Management Board Member and CTO/CIO Group for a period of four (4) years, with commencement as of 15 March 2007.

Performed supervision during the business year 2007.
In 2007 there were 6 (six) sessions. The Supervisory Board supervised the managing of the Company's business operations and performed other tasks in accordance with the Companies Act, 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 6 (six) out-of-session decisions as follows:

- decisions relating to the IPO process in accordance with the requirements of both jurisdictions, i.e. the UK and Croatia
- decision on granting prior approval of the Amendments to the special Regulations on Organization related to the organizational change within the Corporate and T-Com technical units,
- decision on granting prior approval of the proposal for the Amendments to the Articles of Association of the Company due to adjustments of the registered scope of the business activities resulting from the IPTV services, real estate-related operations (lease, rent) and various T-Com promotional campaigns with the laws of the Republic of Croatia (especially with the Media Act, the Electronic Media

Act, the National Classification of Economic Activities Act - NCEA) and the interpretations of the Commercial Court on the application of the above-mentioned Acts.

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 detail, and the Supervisory Board provided respective prior approvals and recommendations:

- All requested activities and decisions falling within the scope of responsibility of the SB demanded by the process of IPO and related to financial statements, Prospectus approval and signing, listing HT's shares on the Zagreb Stock Exchange and listing GDRs representing HT's shares on the London Stock Exchange, completing the directors' questionnaire, etc.,
- Strategic re-invention program - ADSL, IPTV, IP based network, churn prevention, IP business solutions, process & quality, market trends and competition strategy of the Company,
- Broadband spread, tariff options, cost management programs and strategic project programs, investment planning
- Regulatory framework: IC rates, LL price, ULL, CPS, regulator's rejection HT's business packages, WiMax licenses, etc.
- HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system
- Corporate Governance and changes in the composition of the Membership of the Management Board as outlined above
- Status of documentation and ownership over HT d.d.'s infrastructure and network, i.e. utilization of DTI, activities of the Croatian Telecommunications Agency, activities of the local self-government units, activities of operators and concessionaires, activities of the international legal expert engaged by shareholders regarding the DTI status.
- International activities of the Company
- Introduction of THT's IPO related incentive and retention plan for the management
- Annual Business Plan for 2008 and Three-Year Strategic Plan 2008 - 2010.
- Establishment of the Remuneration Committee of the Supervisory Board, appointments of its Members, definition of the scope af activities and determination of the Rules of Procedure of the Remuneration Committee as well as the targets setting and targets achievement proposals related to the MB Members remuneration
- Scope of activities and reports of the Audit Committee of the Supervisory Board of HT d.d and updates with respect to the S-OX compliance and Croatian Audit Law
- Significant risks and exposures (Consumer protection Litigation Status, Frame Contracts Litigation Status)
- Continuing obligations of the Company following the listing of its shares on the Zagreb Stock Exchange and listing the GDRs representing the Company's shares on the London Stock Exchange.

In 2007, the Audit Committee of the Supervisory Board held 4 (four) regular sessions and 1 (one) extraordinary session (IPO) and discussed various issues, especially:

1 2006 year-end closing of T-HT Group
2 2007 Audit Plan, external auditor
3 Implementation and effectiveness of internal control over financial reporting according S-OX: SOX 404 project in T-HT & Testing results
4 External Auditors Report (quarterly reports, Auditor's Independence, Report on auditor engagement, new accounting and disclosure requirements in 2007, etc.)
5 Fraud Report and Risk Reports T-HT
6 DT Concept, HT Implementation status of Anti-Fraud Management and AFM Assessment results
7 Code of conduct implementation status incl. whistleblower procedure
8 Update and approval of the AC Charter and Audit Manual
9 Measures monitoring and closing the remaining activities from 2006
10 Audit program 2006/2007 (execution, planning program)

11 Supervision over the realization of audit measures and audit reports (fraud management and reporting, IT solutions, Real Estate - facility classification, property registration, network registration, network capacity, business continuity activities, etc.)
12 Rights and responsibilities of the Audit Committee according to S-OX
13 Internal auditing program for 2008
14 Supervision of the IPO with special emphasis on risk report
15 2007 self assessment of the AC

In 2007, the newly established Remuneration Committee performed the target setting procedure for 2008 and began preparing the target evaluation procedure for 2007.
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 for the business year 2007 together with the audit report, the annual report on the status of the business operations, 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 Companies Act and in accordance with the principles of conscientious and truthful reporting.
In the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2007 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 Report of the Management Board of HT - Hrvatske telekomunikacije d.d. on the relationships with the governing and affiliated Companies (Related Party Report) for the year ended 31 December 2007. Management is responsible for HT - Hrvatske telekomunikacije d.d.'s ("HT") compliance with requirements of Article 497 of the Croatian Companies Act. Our responsibility is to express an opinion on management's assertion about HT's compliance based on our examination.
Our examination was conducted in accordance with International Standards on Auditing and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

In our opinion, management's assertions provided in the Related Party Report for the year ended 31 December 2007 are fairly stated, in all material respects.
This report is intended solely for the information and use of HT and is not intended to be and should not be used by anyone else.
End of quote.

Ernst&Young d.o.o. Slaven Đuroković

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 counter-action for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and auditor's report, Management Board Report on the status of business operations for the business year 2007 and draft decision on utilization of profit

The Supervisory Board issued an order to Ernst & Young, the Company's auditor, for the examination of the annual financial statements for the year 2007.
The Supervisory Board, after considering the audited financial statements for the business year 2007, established that the Company acted in 2007 in accordance with the law, the acts of the Company and the decisions of the General Assembly, and that the annual financial statements were made in line with the situation in the Company's 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 for the business year 2007.

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 annual report on the status of business operations for the business year 2007 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied given within the above Report. The Supervisory Board has no objections to the statements made in the answers within the attached questionnaire requested to be completed by the Zagreb Stock Exchange and that the answers given to this questionnaire are to their best knowledge truthful in their entirety.

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

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

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 2007.

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 2007, the Supervisory Board considered and approved the Company's business policy for the year 2008.
Pursuant to all of the above, the Supervisory Board will deliver to the General Assembly of the Company this Report on the performed supervision of the managing of the Company's business operations in 2007.

Michael Guenther
Chairman of the Supervisory Board

Corporate Governance Code Compliance Statement

HT - Hrvatske telekomunikacije d.d. (hereinafter: the Company) has used the possibility provided by Article 250b, paragraph 4 of the Companies Act ("Official Gazette" No. 111/93, 34/99, 121/99 and 107/07) and prepared the Annual Report of the Management Board on the Status and Business Operations of the Company and the T-HT Group for Business Year 2007 that consists of the Annual Report on the Status and Business Operations of the Company and Consolidated Annual Report on the Status and Business Operations of the Company.

The Company applies the Corporate Governance Code that was jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter: the Agency) and Zagreb Stock Exchange Inc. Zagreb, and adopted by the Agency's Decision dated 26 April 2007 ("Official Gazette", No 46/07). The Code is published on the web-pages of the Zagreb Stock Exchange (www.zse.hr).

The Company complies with the recommendations of the Code with the exceptions of recommendations that were not binding on the Company at the relevant time period due to the ownership structure (only three shareholders) and the time of listing of the Company's shares on the stock exchange in the final quarter of 2007 (October 2007). The mentioned exceptions are the following:

- Semi-annual and quarterly results were not made available to the shareholders through the web-pages. Due to the IPO, the same will be changed in future (part 2.3. of the Code).
- Before October 2007, eight members of the Supervisory Board were elected by the General Assembly based on nominations made by the shareholders. One member was appointed by the workers as in accordance with legal regulations. Data from the candidates CV's were published on Intranet sites and through public release, jointly with the announcement of the decision on their election. (Part 3.1.1.3.).
- The Agenda of the General Assembly and relevant records and papers were delivered directly to the shareholders, so there was no need for an announcement on Internet (Part 3.1.4.).
- Due to the ownership structure (three shareholders) at the moment of General Assembly convocation, modern communication voting devices were not used. (Part 3.1.8.)

Also, the Company did not comply with the following Code recommendations:

- The Supervisory Board is not composed mostly of independent members, but the same is anticipated as described within the Prospectus (Part 3.2.2.).
- Remuneration received by the members of the Supervisory Board is determined in relation to the average net salary of Company employees and not according to their contribution to the efficiency of the Company (Part 3.2.5.).

- The Supervisory Board did not establish the Appointment Committee. It is anticipated that the respective activities will be covered by the Remuneration Committee (Part 3.2.11.).
- The Supervisory Board did not prepare the evaluation of its work in the past period (Part 3.2.15.).
- The Supervisory Board adopted the reward strategy based on DT's Guidelines adapted for local needs. The Statement of the policy of remuneration of the Management Board and the Supervisory Board was not composed separately. The remuneration of the Management Board and the Supervisory Board was disclosed within the Prospectus, and certain data are disclosed within the Annual Financial Statements (Part 3.3.3.).
- The amounts of the remuneration paid to the independent external auditors for the performed audit and other services rendered was not publicly announced (Part 4.1.).

Due to the October 2007 IPO, the Company intends to comply with the mentioned recommendations of the Code as far as practical in the future.

Internal Control and Risk Management

The Audit Committee of the Supervisory Board of the Company was established in April 2002. The Audit Committee's principal responsibilities are the preparation of the decisions of the Supervisory Board of the Company and the supervision of the implementation of such decisions in relation to the controlling, reporting and audit activities within the Company. Revisions to the Audit Committee's term of reference were adopted in November 2006 and adjusted in accordance with the Sarbanes Oxley Act and with the Croatian Audit Act. The Audit Committee oversees the audit activities of the Company (internal and external), discusses specific issues brought to the attention of the Audit Committee by the auditors or the management team and makes recommendations to the Supervisory Board.
The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports submitted to the Supervisory Board.

In executing its activities, the Audit Committee is authorized to:
1 Acquire the necessary information and supporting documentation from management officers and senior employees within the Company and from external co-workers;
2 Report on the necessity of obtaining legal or expert advice outside of the Company; and
3 Participate at meetings held within the Company concerning the issues that fall within the scope of its activities and responsibilities.

Corporate Internal Audit of the Company performs an independent monitoring function on behalf of the Management Board and informs managers by comprehensive audit reports (findings and proposed improvements). Implementation of the annual Audit Program contributes to the minimization of risks and the improvement of operational efficiency. In April 2006, the Management Board adopted the Audit Manual of the Corporate Internal Audit of the Company.
Financial Reporting Audit ensures the reliability of the Company's financial reporting by:
- Identifying risks and 'fields of improvement
- Performing audits of areas of risk
- Monitoring implementation of the audit measures and, if necessary, escalation of problems
- Providing support in TOP projects in a way that would not conflict with the principles of objectiveness and independence
- Conducting ad hoc audits upon management request

Significant Company's Shareholders

The majority owner of the Company is Deutsche Telekom, with 51 per cent of shares. The Republic of Croatia owns 9. 5 per cent of shares, the War Veterans' Fund owns 7 per cent of shares, and 32. 5 per cent of shares are owned by Croatian citizens and by domestic and foreign institutional investors. The President of the Management Board of HT-Hrvatskih telekomunikacija d.d., Mr. Ivica Mudrinić, owns 1063 shares in total, Mr. Juergen P. Czapran, MB Member, owns 185 shares in total, Mrs. Ivana Šoljan, MB Member, owns 63 shares in total, Mrs. Irena Jolić Šimović, MB Member, owns 41 shares in total and Mr. Josip Pupić, Supervisory Board Member, owns 63 shares in total.

Appointment of the Management Board, its functions and the Amendments to the Articles of Association

The members and President of the Management Board are appointed and recalled by the Supervisory Board. Their term in office is up to four years, with the possibility of re-appointment. Pursuant to the Company's Articles of Association, the Management Board consists of between five and seven members. Currently the Management Board has six members: President of the Management Board and CEO, MB Member and Chief Operating Officer Fixed and Broadband (COO T-Com), MB Member and Chief Technical and Chief Information Officer Group (CTO/CIO Group), MB Member and Chief Human Resources Officer (CHRO), MB Member and Chief Operating Officer Mobile (COO Mobile) and MB Member and Chief Financial Officer (CFO).

For making a proposal of amendment to the Articles of Association to the General Assembly, the Management Board needs prior approval from the Supervisory Board. The Supervisory Board shall approve such proposals of the Management Board only upon the affirmative vote of at least seven of the Supervisory Board members present or represented.

Authorities of the Management Board Members

Pursuant to the Companies Act and the Company's Articles of Association, the Management Board runs the business operations of the Company on a day-to-day basis and is empowered to enter into transactions on the Company's behalf, subject to such approvals as may be required from the Supervisory Board for certain matters and decisions. Under the Articles of Association, the Company may be represented by any of two members of the Management Board.

The composition and functions of the Supervisory Board

Pursuant to the Company's Articles of Association, the Supervisory Board consists of nine members. Eight members are appointed by the General Assemble and one by the Company's employees. The Supervisory Board is responsible for the appointment and recall of Management Board members as well as for supervising the management of the Company's business affairs. Certain major or uncommon transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments require the approval of the Supervisory Board. The Supervisory Board established the Remuneration Committee and The Audit Committee.

No. 1 telecommunications provider in Croatia

Market Overview

Positive macro-economic trends, strong expansion of broadband access based on ADSL technology and market acceptance of new technologies are shaping the telecommunications market landscape in Croatia. T-HT has been successfully maintaining its leadership position in all market segments

In 2007, T-HT continued operating in a fully liberalised telecommunications market. Despite the competition intensifying in all market segments, T-HT sustained its leadership position in all market segments.
The highlights of the past year include not only increased competition and further rapid growth in broadband services but also the initial public offering (IPO) of 32.5% of the Company's shares. The shares have been listed on the Zagreb Stock Exchange and global depository receipts on the London Stock Exchange since 5 October 2007.
Market consolidation remained an important market theme in Croatia in 2007. An Austrian investor acquired Croatia's two biggest cable operators in April 2007. This was followed in August 2007 by the acquisition of a local ISP by Croatia's alternative fixed line operator.
T-HT has been successful in adapting to the changes in the competitive environment and has suffered limited loss of market share despite the increased competition. A key aspect of this success is T-HT Group's focus on providing a superior quality of network and services and its ability to offer a comprehensive telecommunications product and service portfolio that provides every customer with the service that best suits their needs.

Macroeconomic environment - Croatia offering attractive growth potential

Croatia has an economy with attractive growth potential. According to the Croatian Central Bureau of Statistics, in 2007, real GDP was 5.6% higher than in 2006, the unemployment rate has been gradually decreasing over the last seven years, the inflation rate remains low (2.9% in 2007), the exchange rate remains stable, more than 11 million tourists were recorded in 2007 (88.5% from abroad) and there are prospects of further positive effects from EU accession.

Fixed telecommunications - Fixed line still going strong. Another successful year for T-HT despite full liberalisation

Ten operators are active in the fixed telephony segment of the Croatian telecommunications market. Five other operators have licences but have not yet passed the technical inspection of the Croatian Telecommunication Agency. As a consequence of intensified competition in 2007, T-HT Group's market share by revenue in fixed telephony fell from 91% to an estimated 88% (internal estimate). Revenue for the market as a whole from traditional voice services declined as expected due to a combination of lower prices and a fall in voice traffic (itself primarily attributable to fixed-to-mobile substitution and the increased usage of VoIP services). Despite a slightly lower market share in 2007, the Group's operations in the field of fixed telephony remained stable in 2007 due to high quality service, strengthened sales channels and tailored offers created to best suit the specific communication needs of different customer segments.

Mobile telecommunications - Croatian mobile market continues to grow. T-Mobile stays on top

Since 2005, Croatia has three mobile operators. The mobile penetration rate as at 31 December 2007 was estimated at 115% (internal estimate). T-Mobile maintained its position as the leading mobile operator in 2006. Its market share by revenue amounted to 52,7% as compared with 53,6% (internal estimate) in 2006. Increased penetration and growing minutes of usage have offset the price drop, resulting in overall market growth. In 2007, T-Mobile promoted its HSDPA mobile broadband solutions. T-Mobile expanded its offer in November with the new Web'n'walk stick - the smallest and simplest data device in the Croatian market.

Internet - Strong expansion of ADSL. T-HT leading the growing broadband market. MAXtv increasingly popular

T-HT Group has the leading position among Internet providers in Croatia with a market share in 2007 of approximately 69% by revenue (internal estimate). The market has continued to migrate from dial-up to broadband connections. In 2007, T-Com continued its strong expansion of broadband access based on ADSL technology, reaching over 344,000 users of broadband Internet. Following its successful launch in September 2006, MAXtv became one of the trademarks of the Group's services in the market in 2007, and the number of customers is constantly increasing. The Group's competitors also intensified their activities in this area over the same period. In addition to relying on the Group's ULL offering, some operators continued building their own broadband lines to business customers and introduced an ADSL service for residential customers via their own network. Iskon, the Company's subsidiary, confirmed its market position in 2007 as one of the leading alternative broadband operators, focusing primarily on residential ULL, advanced broadband users and SME customer segments.

Data - Market migrating to IP based services. Quality of service secures T-HT's leading position

T-HT Group has managed to sustain its leadership in the provision of data services in a market transitioning to IP based services. The Group's main data service competitors have continued to develop their own fibre networks, targeting mainly business and public segments with aggressive pricing.

32.5%

of shares in public hands

Wholesale - Domestic and international competition. T-HT remains the largest player with the most extensive network coverage

T-HT Group has established interconnection with both remaining mobile network operators and eight fixed network operators. T-HT provides wholesale services to four major customer segments: international operators, mobile operators, fixed operators and a variety of different service providers (such as VAS providers, ISPs and VoIP service providers). The alternative operators are building their own networks and competing by offering dark fibre and capacities. The international market in 2007 was characterized by increased competition of domestic alternatives and also by entrance of several regional players in the Croatian market who built their physical points of presence in Zagreb. However, T-HT Group has the largest and the most widespread network in Croatia and has remained by far the largest player in the wholesale market.

Regulatory Environment

The currently valid Croatian regulatory regime is based on the EU regulatory framework. Croatian Agency for Telecommunications (NRA) as the national regulatory authority is responsible for enforcing the Telecommunications Act and regulations pursuant to the Act. By NRA resolutions, T-HT, T-Mobile and Iskon had been designated as operators with significant market power

The currently valid Croatian regulatory regime, that is, the Telecommunications Act and its respective subordinate legislation, is based on the 1998 EU regulatory framework. However, in June 2007, the Ministry of Sea, Tourism, Transport and Development (now Ministry of Sea, Transport and Infrastructure) issued guidelines for drafting a new act on electronic communications which will replace the current Act and which is aimed at being completely aligned with the applicable 2002 EU regulatory framework. According to the Government's announcements, the new Electronic Communications Act may be expected during the course of 2008.

Under the valid Telecommunications Act, the Croatian Agency for Telecommunications (NRA) has been established as the national regulatory authority responsible for enforcing the Telecommunications Act and regulations pursuant to the Act. The NRA has significant powers under the applicable legal regime, including the authority to impose network access and interconnection obligations, and to approve or review the charges and general terms and conditions of providers with "significant market power" (SMP) on a relevant market. The NRA also has the authority to grant and revoke concessions and licenses for provision of telecommunication services, to assign and manage addresses and numbers, to manage the radio frequency spectrum and to impose universal service obligations.

The Telecommunications Act imposes obligations in relation to network access and interconnection, price control, separate accounting, transparency, publication (of, e.g. offers, prices) and non-discrimination on operators that are designated by the NRA as having SMP in a relevant market.

The Company had been designated as an operator with SMP in the interconnection market and the market for leased lines. In addition, the NRA designated the Company and Iskon as operators with joint SMP in the market for fixed public telephony networks, in particular, the market for public voice services and the market for transmission of voice, sound, data, documents, images and other in the fixed telecommunications network. T-Mobile has been designated as an

SMP operator in the interconnection market and the market for public voice service in mobile network. Accordingly, the Company, Iskon and T-Mobile are subject to ex-ante sector specific regulations in the markets where they are designated as SMP operators. The SMP status of the Company, T-Mobile and Iskon in those markets was reconfirmed by recent publication of the list of SMP providers published by the NRA in December 2007.

According to applicable regulations, charges for telecommunication services offered by providers with SMP on a relevant market have to follow the cost orientation principle. The Telecommunications Act distinguishes between tariffs that require prior regulatory approval and those that are subject to retroactive review. Generally, wholesale pricing as well as retail public voice pricing in the fixed network and leased lines of SMP operators require prior approval, whereas other retail pricing is subject to retroactive review. In addition, tariffs for universal services must be set at an "affordable price." Other tariffs are essentially unregulated. In particular, the retail prices of T-Mobile are not subject to ex-ante approval of the NRA.

From a wholesale perspective, SMP operators are obliged to offer competitors network access (including interconnection and, in the case of the Company, unbundled access to the local loop) as well as access to certain services and facilities on a non-discriminatory basis. Also, providers with SMP are obliged to maintain separate cost accounting systems with regard to services on those markets where they hold SMP. This obligation is intended to allow for transparency with respect to various telecommunications services in order to prevent the cross-subsidization of services. The NRA may determine cost accounting systems that have to be implemented by operators and service providers with SMP in the relevant markets, which can increase the costs of compliance for a service provider /operator.

The Company's Reference Unbundling Offer (RUO) for full access has been approved and available since October 2005 and for shared access as of December 2006, whereas realisation of unbundled local loops started in September 2006. In 2007, the NRA initiated discussions on changes in the Company's. On 11 January 2008, the NRA

fixed and mobile providers offering telecom services in Croatia passed a decision requiring certain changes to the Company's RUO.

Most significantly, those relate to the obligations to:

- include until 1 March 2008 a "Static Plan of Frequency Spectrum Management" as an additional Annex to the RUO.
- allow the usage of VDSL technology on fully unbundled local loops from the day the Company starts with the commercial provision of services by means of this technology
- offer air-conditioning in collocation rooms at the request of beneficiaries
- take over all costs of relocation of collocation in the case of network restructuring

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

In 2007, the NRA imposed certain changes in the Company's Reference Interconnection Offer (RIO), the Company's Collocation offer and T-Mobile Croatia's RIO. Both RIOs are now applicable from 1 November 2007 until 31 December 2008, whereas the Company's Collocation Offer is applicable from 1 November 2007 until approval of the new Offer is granted.

Having been designated as an SMP on the market for leased lines on 30 March 2007, the Company submitted its first draft offer for wholesale leased lines as requested by the NRA, on 2 October 2007. The wholesale offer for leased lines was changed in accordance with the NRA's decision and published on 21 December 2007.

Following the expiry of the Company's exclusive rights in the fixed network on 1 January 2003, the Telecommunications Act required the harmonisation of the then valid Concession Agreement with the provisions of the Telecommunications Act. The NRA passed decisions granting the Company authorisations existing under the current Telecommunications Act for the provision of telecommunications services on 20 April 2007. These decisions confirmed the existence and validity of the Company's rights and authorisations existing under the Concession Agreement for the period of 30 years from entry into the Concession Agreement.

A Memorandum of Understanding was signed between the Company, Deutsche Telekom and the Croatian Government in August 2007, setting forth the framework and key principles for resolving issues associated with the Distributive Telecommunication Infrastructure (DTI).

Group Strategy

The Group's aim is to maintain its leading position on the Croatian telecommunication market with the introduction of new, technologically advanced and attractive services. Maximum customer orientation and high quality service remain the T-HT's strategic goal

The principal strategic aim of the Group is to become the most highly regarded telecommunications service provider in Croatia through providing its customers with both basic telecommunications services and innovative add-on services related to the ''Digital Lifestyle'' and including IPTV, video-on-demand, multimedia content on T-Portal, and also integrated ICT solutions.
In order to achieve the strategic goals, the BIG 6 Strategic Program for the years 2007 and 2008 has been developed, concentrating even more on customer relevance and on creating a highly proactive service company.
BIG 6 includes the following six initiatives:

1 We build and maintain strong individual relationships with our customers
2 We focus our market approach to meet customer needs
3 We push processes that make a difference i.e. improve key processes (e.g. time-to-market and quote-to-service) to best-in-class level
4 Our people offer superior service (creating a service-oriented culture amongst our employees)
5 We care about the quality that matters
6 We save for service i.e. rationalise traditional business lines, invest in the growth of new business segments such as broadband access, new triple play services, and invest in the underlying network infrastructure

The Group's strategy is based on three main principles:

1 Growth and innovation, involving an expansion into the ''Digital Lifestyle'' market with products such as MAXtv and new industry segments such as media and entertainment;
2 Building stronger relationships with customers, focusing on four key elements to achieve this: people, quality of service, innovation, and simplicity;
3 A focus on quality and efficiency, including the building of efficient servicing and relationship processes.

Customer retention and acquisition, customer satisfaction with the services we provide, and focus on growth and innovation, including care about quality and delivery efficiency, are our key strategic guidelines.

6

strategic goals shaping Group's business

Growth and innovation involving an expansion into the "Digital Lifestyle" market and new customer segments

As the market leader in both the fixed and mobile telephony markets in Croatia, the growth opportunities for the Group in the traditional business segments are limited. The Group is therefore looking to the broadband and media segments as having the potential to provide growth opportunities for traditional telecommunications operators. The Group's aim is to maintain its leading position among telecommunications providers in the Croatian market through the introduction of new, technologically advanced and attractive services. It aims to develop and promote attractive, cutting-edge services and solutions in telecommunications and related industries (such as media and information technology) to its customers and, in this way, to increase the usage of advanced services in both the private and business markets.

Expansion of broadband connections and IP-based services

The Group's growth strategy focuses on the expansion of broadband connections and IP-based services. Broadband connections provide a basis for offering technologically advanced services such as TV and Video on Demand (VOD) via Internet, Voice over Internet Protocol (VoIP), Virtual Private Networks (VPN) etc. Through broadband expansion, T-Com establishes the infrastructure it needs to provide Croatian homes and companies with up-to-date telecommunications services. By promoting the adoption of these services, the Group continues to significantly improve business customers' operations and the way in which residential customers correspond and interconnect with each other and access and share multimedia content. Internet and data services for mobile telecommunications is another area of focus for the Group. Through T-Mobile, the Group promotes the adoption of new services that drive the usage of data services, enhance the value of mobile communications to users and provide traffic growth for the Group. The early introduction of HSDPA technology and the planned increases of network bandwidth are initiatives that support this strategic focus.

Introduction of innovative media and entertainment services based on modern technologies

The Group's strategy is to strengthen its position in the media segment through the development of innovative products and services, as exemplified by T-Com becoming one of the first operators in Europe to offer IPTV to its customers with broadband connections.

ICT Related Services

T-HT Group is in the process of broadening its service portfolio with integrated telecommunications and IT solutions by developing tailor made solutions for key business customers. The goal of the Group is to be able to satisfy all the communication and IT needs of its business customers.

Prudent Evaluation of Regional Opportunities

The Group has been closely monitoring and evaluating developments in neighbouring markets to identify potential growth opportunities. These include the privatisation of any operator still owned by the Government and positioning the Group as an alternative cross-border operator or as a regional wholesale traffic aggregator. However, the Group's primary focus will be on developing the investments it has already acquired in Bosnia and Herzegovina. The Group has created a base for expansion into the market of Bosnia and

Herzegovina by securing a 39.1% ownership interest in HT Mostar, which has integrated its fixed and mobile business by merging with HT MObilne Mostar. The Group aims to capitalise on this investment in the future by increasing its ownership (although this depends on the privatisation process in Bosnia and Herzegovina) and by participating in the high growth potential of the mobile market in Bosnia and Herzegovina. The telecommunications market of Bosnia and Herzegovina was liberalised in 2006 and, given the current low level of development, the market is expected to grow faster than certain European markets in the coming years.

Building stronger relationships with customers by offering better services

Maximum customer orientation and focus on customer relationships and their satisfaction with our service remain the Group's strategic goal. The Group recognises four key focuses to achieve this:

- people,
- quality of service,
- innovation, and
- simplicity.

Service-focused Employees

The development of skilled, service-minded employees who understand customer needs and new technologies plays an integral role in building customer relationships and encouraging customer retention. The telecommunications industry is subject to dynamic technological changes and constant market challenges. Since it recognises that knowledge rapidly becomes obsolete and that service-focused employees are its key asset, the Group invests in the education and training of its employees so as to, for example, turn service technicians into salesmen and implement service certification programmes.

T-Centres - Closer to our Customers

Respecting customer needs and following our aim to allow them quick and easy access to all our products and services at one place, the Group has integrated T-Com's and T-Mobile's residential sales units and, by doing so, has become closer to its customers, who now can obtain information and buy all products from their portfolio in one place, in all T-Centres. Through project "One face to the customer" the Group supports these customer touch points with excellent "back office" service and provisioning in order to provide the overall quality of service that will differentiate the Group from its competitors.

Innovation

Constant innovation in the services provided enables the Group to stay relevant in the market, retain customers and sustain the value customers perceive in the Group's services.

Simplicity

Finally, through simple, segment oriented offers, the Group recognises and addresses the needs of different customer segments, while providing simplicity and transparency in a market confused by a multitude of offerings from alternative operators. Choices and opportunities are expanding, but we all continue to want the same basic things, such as simplicity, easy access, quick response and a good service.

A focus on Quality and Efficiency

The Group's priority is to improve the quality and efficiency of its operations by redesigning processes, while at the same time reprioritising capital expenditure for future growth opportunities. Together these initiatives are intended to enable the Group to optimise overall operating costs and protect margins in an increasingly competitive environment. The Group's strategic aim is to be valued by its customers as a top service organisation and the reference point for excellent customer service. In order to achieve this, we are investing in a new technical platform that will open the way for better, faster and even more reliable services for all customers. Customers and their present and future needs are the focus of all of the Group's business operations. The goal of T-HT is to offer a wide range of fixed and mobile telecommunications services and thereby to provide every customer with the service that best suits their needs.

Organization of the Group

T-HT Group is divided into corporate and business functions. Within the Group, there are two business units, T-Com and T-Mobile, and four corporate units. Business units provide individual products and services, while the role of corporate units is to integrate business and management of the entire Group

Corporate Structure

The Company conducts its business through the T-Com business unit (which is not a separate legal entity), T-Mobile and a number of other smaller subsidiaries.

Organisational Structure

Group

The Group is headed by the Management Board that governs the management of the Group's business operations and is responsible to the Supervisory Board for the overall business results and performance of the Group. The Supervisory Board supervises the management of the Group's business and is responsible to the shareholders for compliance with the legal framework in which the Group operates.

T-Com

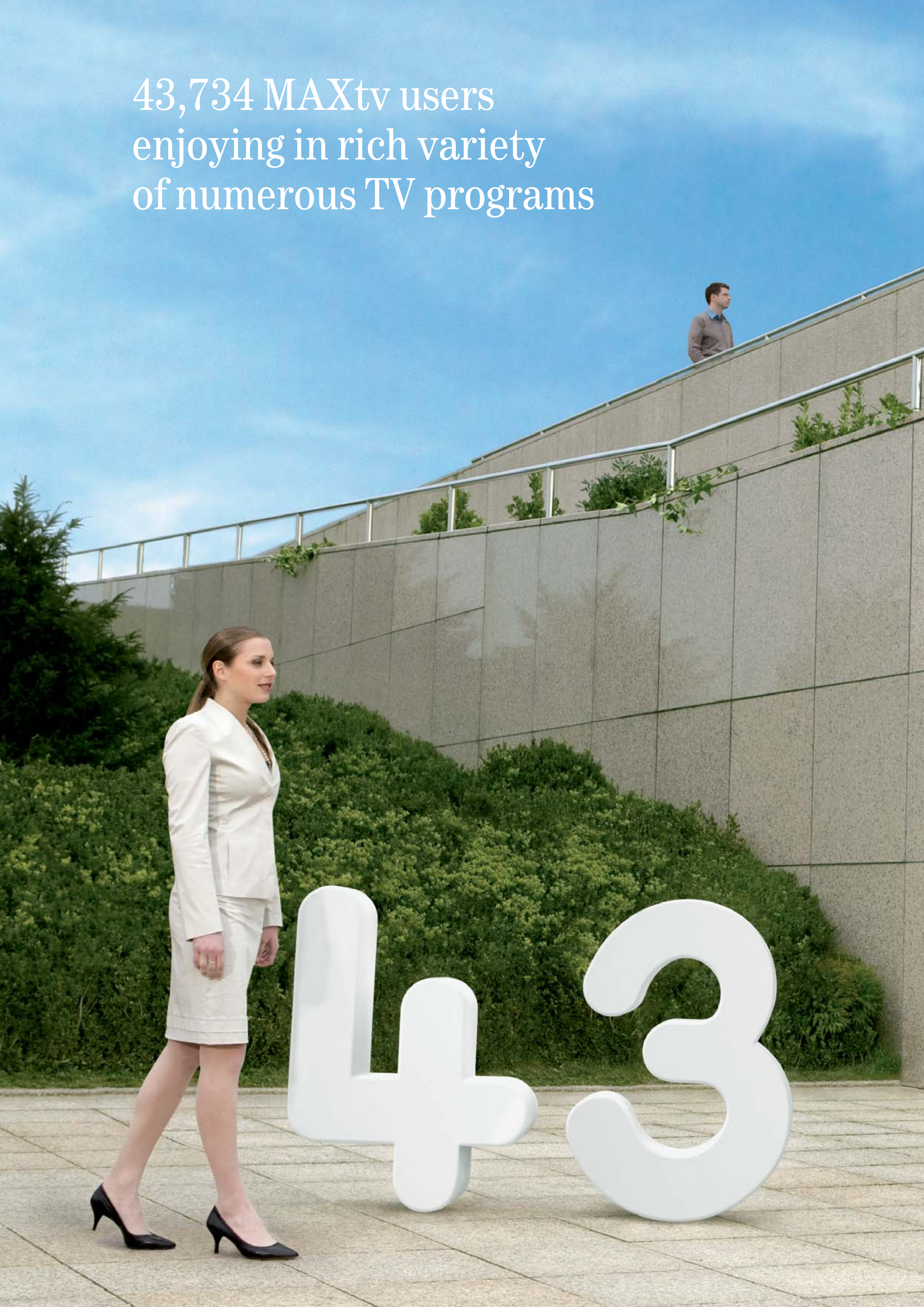
T-Com is responsible for the Group's fixed network and its wholesale, Internet and data services. The T-Com business unit encompasses the Company and Iskon and the four corporate units which make up the Company. The function of these corporate units is to provide group management services and exploit the synergies between the fixed and mobile activities: CEO Corporate Unit, Financial Corporate Unit, Group Technical / IT Corporate Unit, and Human Resources Corporate Unit.

T-Com's core business is headed by the Executive Board, which manages the business operations of T-Com and reports to the Management Board. T-Com's Executive Board consists of: the Chief Executive Officer of T-Com (who is also a member of the Management Board and the COO for fixed network and broadband) and the Heads of Finance (CFO), Network (CTO), Marketing (CMO) and Sales and Services (CSO). The regional activities of T-Com are organised through a regional sales/regional management department and a regional network operations department. T-Com's regional presence is organised through four geographic areas: Region North (headquartered in Zagreb), Region South (headquartered in Split), Region West (headquartered in Rijeka) and Region East (headquartered in Osijek). The various parts of T-Com's business are organised into different functions, managed by a designated member of the T-Com Executive Board. Each function unit is divided into one or more sub-units, managed by their respective senior directors.

T-Mobile

Unlike T-Com, the activities of T-Mobile are conducted through a separate legal entity wholly-owned by the Company. The business operations of T-Mobile are managed by the Management Board of T-Mobile, which is responsible to the Management Board. The Chief Operating Officer for Mobile of the Group is ex officio President of the T-Mobile management board and CEO of T-Mobile.
The T-Mobile management board has five other members: the Heads of Finance (CFO), Network and Information Technologies (CTO), Marketing (CMO), Sales and Services (CSO) and Human Resources (CHRO).

business units:
T-Com and T-Mobile


43,734 MAXtv users
enjoying in rich variety
of numerous TV programs
43


734

T-Com

T-Com is the leader in fixed telephony and broadband market in Croatia. To its customers, T-Com provides both basic telecommunications services and innovative add-on services related to the Digital Lifestyle offering MAXtv, T-Com interactive digital television. Also, T-Portal, leading Croatian internet media, operates within T-Com

Overview

The Croatian telecommunications market continued developing dynamically throughout 2007, a year in which

- T-Com confirmed its leadership position in all segments.
- There was continued strong growth of broadband: the number of MAXadsl customers more than doubled during 2006 and the strong growth continued during 2007 with T-Com reaching 344,925 ADSL customers at the end of the year, representing an increase of 59.9% as compared with 2006. Iskon successfully launched its Iskon.Duo packages.
- Fixed-to-mobile substitution continued. According to the Croatian Central Bureau of Statistics, in 2007, total minutes in the fixed line network decreased by 12% (from 8,515 million minutes in 2006 to 7,534 million minutes in 2007), while, in the same period, the total mobile minutes increased by 24% (from 4,115 million in 2006 to 5,083 million in 2007). Ten operators are active in the fixed telephony segment of the Croatian telecommunications market. Several other operators offer voice service but only through VoIP.
- Market competition intensified.
- Alternative operators introduced new products and, in some cases, built their own networks and engaged in price competition. Several alternative operators promoted their ADSL and double play (internet and telephony) offers in 2007.

T-Com's total revenue in 2007 amounted to HRK 5,446 million, which represents a 0.4% decrease compared to the previous year. This is primarily the result of decreased revenue from fixed telephony in 2006 offset by increased revenue from internet services, data services and wholesale.

Major Achievements in 2007

Fixed Telephony

T-Com continued to hold the leading market position and, as at 31 December 2007, operated 1.6 million fixed telephone mainlines, which was 2.1% less than in 2006. The number of access mainlines in the market provided by T-Com has declined slightly as a result of mobile substitution and increasing competition in the fixed-line market, including direct access to competitors' newly built infrastructure and ULL. T-Com has continued to focus on its customers' satisfaction and the retention of its customer base through various channels and programs:

- retention offers increasing offer value;
- Loyalty Program launch;
- direct targeting of campaigns;
- proactive cross-selling of products.

At the end of 2007, 92.4% of mainlines were POTS and FGSM mainlines, 7.0% were ISDN mainlines and 0.6% payphones. The migration from ISDN to POTS mainlines was mainly due to ADSL.

The residential customer segment represented 84.8% of total POTS, FGSM and ISDN mainlines, while the business customer segment represented 15.2% of total lines.

In 2007, the majority of fixed line calls made by T-Com's retail users were national calls made to fixed and mobile networks. Retail voice traffic was 12.1% lower than in 2006, primarily due to increased competition from alternative operators (as a result of which there was a shift from retail voice traffic revenue to wholesale revenue) and the effect of fixed to mobile substitution. During 2007, residential customers generated approximately 70% of the total number of minutes used in T-Com's fixed telecommunications network.

In order to meet the requirements of different customer segments, T-Com launched two additional tariff options for residential customers - Favourite number and Non Stop Off-peak.
The first option named "Favourite Number" gives the opportunity to choose two favourite fixed network calling destinations (on the T-Com fixed network) and one from any national mobile network and to talk at the off-peak tariff of the corresponding tariff package at any time. The second option called "Non Stop Off-peak" is advantageous to users whose calls are mostly in off-peak times, giving the opportunity to make calls to the T-Com HR fixed network at the price of 0 HRK/min, every day from 7 p.m. till 7 a.m., round the clock on Sundays and public holidays, and all of this for an extra monthly charge of 30 HRK and an 0.28 HRK call set-up fee.
As for the improvement of T-Com Customer Service, there were strong activities in the area of incoming and outgoing calls aimed at the retention of customers, the prevention of churn to competitors, telesales, technical assistance for T-Com services, improved collection etc. In 2007, the Customer Care services on 0800 numbers answered more than 5,400,000 incoming calls.

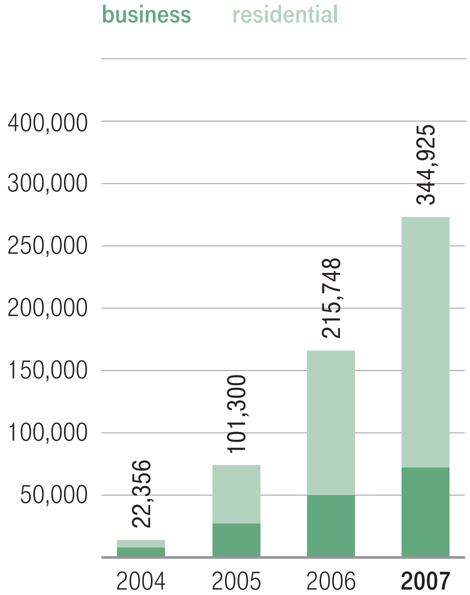
Internet Services

The Internet services are provided both directly through T-Com and through Iskon, which was acquired in May 2006.
The Internet services offered by T-Com comprise Internet access services (both dial-up and broadband services) and related traffic, IP VPN services, IP Centrex services (VoIP), content and multimedia services including ASP services and web hosting services.

The following table provides data on T-Com's fixed access network:

T-Com number of connections	2007	2006
Fixed telephony		
POTS	1,493,104	1,513,892
FGSM	7,653	7,545
Total POTS+FGSM mainlines	**1,500,757**	**1,521,437**
ISDN BRA mainlines	111,783	122,641
ISDN PRA mainlines	2,273	2,562
Total ISDN mainlines	**114,056**	**125,203**
Total POTS+FGSM+ISDN	**1,614,813**	**1,646,640**
Payphones	10,066	12,733
Total mainlines (POTS+FGSM+ISDN+Payphones)	**1,624,879**	**1,659,373**

T-Com ADSL users 2004-2007



At the end of 2007, T-Com had 344,925 ADSL customers, which is an increase of 59.9% compared with 2006. The impressive number of MAXadsl customers was achieved through the constant creation of attractive offers and by enriching the multimedia Internet content. On several occasions during the year, customers were offered market benefits, such as more favourable prices of installation and modems, speed increase or promotional periods of free surfing. Iskon introduced two new innovative packages for residential customers: Iskon. Duo Obitelj and Iskon.Duo Surf, incorporating fixed telephony services and broadband access to Internet including preferences such as more favourable calls towards international and mobile networks, additional minutes in the national network and Internet traffic. Also, Iskon launched Iskon.DUO and BIZnet.DUO packages for the SME segment, offering fixed telephony service, broadband and hosting.

In communication with customers in 2007, special importance was attached to customer segmentation and the identification of specific customer needs. The year was also marked by actions aimed at the retention of existing MAXadsl customers and providing improvement through Self installation. Of the total ADSL mainlines at the end of 2007, 79.1% were residential mainlines compared to 76.9% at the end of 2006.

MAXtv

Following its launch in September 2006, the MAXtv service affirmed its market position and increased the number of users in 2007 through added content value, introducing the MAXtv Try&Buy offer, expanding service availability and lifting the quality of service. As at 31 December 2007, T-Com had 43,734 MAXtv customers, which is 7.5 times more than in December 2006 (5,805 customers at the end of 2006). MAXtv viewers can watch the channels of more than 70 national and international TV stations as part of the basic package, or pay an additional fee to watch premium channels such as HBO. MAXtv viewers also have access to a digital video library containing more than 1,200 titles of various genres of national and international production, in addition to a number of films included free of charge. T-Com introduced the MAXtv Try&Buy promotional offer on 1 October 2007 which lasted until 31 December 2007. Concerning extraordinary success, T-Com introduced the MAXtv Try&Buy offer as a regular service on 1 January 2008. Concerning additional content value during 2007, T-Com introduced new channels: HBO Premium Package (HBO, HBO Comedy), Basic Package (doc: DoQ, Hallmark, SPORT KLUB, NASN; lifestyle&fun: E! Entertainment, STYLE, WineTV, Mezzo, adult: Playboy TV) and Additional Package (sport: SPORT KLUB+, Manchester United TV, Chelsea TV; music: MTV Base, MTV Hits, MTV 2; adult: Private Spice, Adult TV, Hustler TV). Although the total number of dial-up users is growing, the number of active users is decreasing due to customer migration towards broadband access. At the end of 2007, 18.5% of T-Com's dial-up users were active, while 26.5% were active in 2006 (T-Com treats a customer as inactive after 30 days of inactivity).

T-Portal

T-Portal has kept its position as the largest Croatian news portal. With more than thirty columns and online services, T-Portal is primarily intended for Croatian and English-speaking Internet users. In 2007, T-Portal had on average 1,830,000 visitors per month, making 9,729,000 visits, while in 2006 T-Portal had on average 1,770,000 visitors per month, making 8,307,000 visits.

The content, which is created daily - with around two hundred articles and topic units on average - is used by the broadest population of Internet users. Although all generations can find plenty of interesting informative, educational and entertaining content, the majority of the content is intended for the public aged between 15 and 55, which make up the largest part of the population of portal visitors. T-Portal provides its users with access to a number of Internet services and sources of content. The subcategories include: News magazine, HR info, Komunikator, Shopping, Freeweb, Fonoteka, MAXzona, MAXtv. The services include: Chat, Forum, Web mail, Web directory, Telephone Directory, Games, E-cards, Iskrica (matchmaking), Auctions, Advertisement section, Jobs openings, Virtual studies (e-learning), English issue. T-Portal contents are available on PDA, mobile devices, SMS info, MMS info and T-Mobile's wap portal.

During 2007, T-Portal established many microsites for T-Com media projects like: KulTurist, Volim nogomeT, ICT forum, Showtime, Big Brother. It also carried out much media sponsorship of concerts, movies, music CDs and events and started cooperation with Google ad sense services for Search and Content. In December 2007, T-Portal launched a redesigned MAXzona portal, the first broadband portal in Croatia.

In autumn 2006, T-Com introduced Net Phone, an advanced VoIP service for business customers, which provides a competitive tariff package based on low-cost IP technology. During 2007, all VoIP services were recognised as public voice services by the Regulator, resulting in sale suspense of Net Phone packages, i.e. VoIP solution for Small and Medium Enterprises (SME). At the same time, NetPhone has been facing conservative client behaviour by Key Accounts (KA) and Large Accounts (LA), forcing commercial actions that have impacted overall revenues.

Additionally, T-Com broadened its service portfolio with integrated telecommunications and IT solutions by developing tailor made solutions for key business customers. The goal of T-Com is to be able to satisfy all the communication and IT needs of its business customers. In these projects, alongside already widely used WAN communication solutions, T-Com has introduced several IT based applications in order to enhance and automate everyday tasks for companies. These creative solutions have enabled T-Com to win public tenders and have created new revenue streams for the future.

Data Services

As an integral part of its data strategy, T-Com has focused on migrating customers from traditional data towards new services such as Metro Ethernet and IP VPN, supported by promotional efforts. The number of lines in the market provided by T-Com in comparison to 2006 has declined 9.1%.

Among traditional data products, the highest level of demand was shown for the Frame Relay product. Although T-Com faces competition in respect of both Metro Ethernet and IP VPN services, T-Com's main advantages over its competitors are its network coverage and quality of service. Both Metro Ethernet and IP VPN customers can sign a Service Level Agreement.
Additionally, in order to set

344,925

Fast growing number of ADSL customers

a competitive price level and increase customer satisfaction, in 2007 T-Com aligned the prices of the Metro Ethernet and IP VPN services with the market (whilst retaining the T-Com brand and service price premium). In order to increase customer satisfaction, T-Com promoted migrations towards higher speeds.

Retail Sales Channels

T-Com's retail sales organization comprises three centrally headquartered sales departments: sales department for key/large business accounts, sales department for small and medium business accounts, and sales department for residential customers. Each sales department is responsible for sales analysis, planning, defining sales procedures and sales strategy development within their respective customer base. There are also four regional sales units with their headquarters in Zagreb, Split, Rijeka and Osijek. They perform the full scope of front-office and back-office sales operations: service contracting, order fulfilment and after sales support. In order to achieve proper coverage of each customer segment throughout Croatia, T-Com (including Iskon) uses a multi-channel approach which comprises the following sales channels: T-Com business sales representatives, T-Centres, telesales, web sales and indirect partners such as shops and business sales representatives. Telesales and web sales activities are managed by a Customer Services subunit.

For sales to residential and home office customers, there are 54 T-Centres located in all Croatia's cities and major towns (41 of them) which sell both T-Com and T-Mobile services. T-Com (including Iskon) also has a network of 86 indirect partners (using the 'shop in shop' concept) as well as telesales and websales. The Group has an efficient sales channel structure which includes the sharing of resources between T-Com and T-Mobile. In order to harmonise the sales approach and synchronize the sales support process, a joint T-Com / T-Mobile approach was developed in 2007. This joint approach has a number of benefits, including:

- providing one face to the customer;
- offering a uniformly high level of service to all customers;
- cost optimisation; and
- making the most of synergies through resource optimisation. In the project "One Face to the Customer", Joint Residential sales was introduced on 1 November 2007.

Wholesale

T-HT provides wholesale services to four major customer segments: international operators, mobile operators, fixed operators and a variety of different service providers (such as VAS providers, ISPs and VoIP service providers). Wholesale revenue increased by 10.9% to HRK 1,167 million in 2007 from HRK 1,052 million in 2006, representing 21.4% of total T-Com's revenue. The growth is primarily driven by continued market liberalisation, introduction of new services and increased hubbing traffic. The continued deregulation process in Croatia fostered further growth of interconnection revenue.

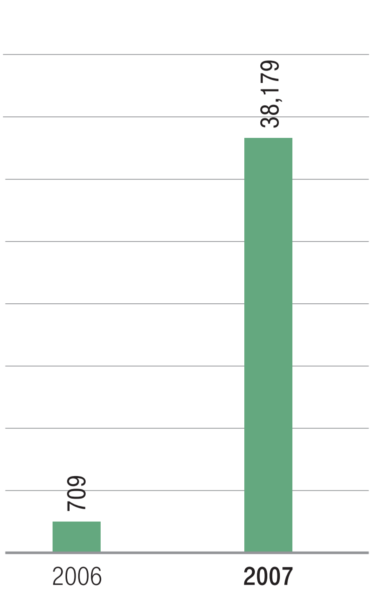
Domestic Market

In 2007, there was further growth of the interconnection market based on the variety of services and the volume of their usage, although not at the same pace as in the previous year. The growth in the number of active CPS (carrier preselection) subscribers slowed down compared to previous years due to the shift of the operators' strategic focus to ULL. The increase in NP (number portability) is an outcome of considerable ULL activations.

The main activities in 2007 were related to the activation of Unbundled Local Loops and Collocation services for ULL purposes. T-Com signed six contracts for access to the local loop and delivered 245 locations (148 physical and 97 remote). 38,179 lines were fully unbundled and handed over to operators, while a new service, SA (shared access), resulted in the delivery of 200 lines.

IC traffic significantly increased as a direct outcome of an increased CPS and ULL customer base and increased average usage per customer. T-Com handed over approximately 50 locations throughout Croatia for local interconnections to meet operators' requests, as interconnecting at the local level enables operators a better price spread and strengthens their competitiveness.

Number of Unbundled Local Loops



With regard to growth in providing retail broadband services, there was an increase in the number of users connected to broadband access via the wholesale ADSL transport service. The Bitstream service enables service providers to rent ADSL access from T-Com on a wholesale basis. T-Com anticipated that operators will migrate existing broadband customers to the Bitstream model.

Value Added Services (VAS) market value increased significantly in 2007 due to a new type of content in this market, mostly TV games. Liberalisation of this market segment spurred operators to compete in this field.

Mobile operators have the leading influence on the data capacity market and, in spite of strong competition and lower margins, the revenue from mobile data/ capacity is growing due to the growth of the UMTS broadband network and increasing fixed-to-mobile substitution.

International Market

International wholesale operations cover the sale/purchase of international services toward/ outward Croatia to international operators, as well as the resale of such services towards other countries in partnerships with local operators. Termination of international telephone traffic into Republic of Croatia and its neighbouring countries generates most of the revenues from the international wholesale business. Strengthened domestic competition and increased foreign operator activity in the market resulted in a 7% drop in inbound traffic towards T-Com .This was successfully compensated by the significant increase in international operations and sales of telephone traffic termination in neighbouring countries Expanded activities were enabled by an extensive and flexible interconnection policy where the number of international interconnections grew from 35 in 2006 to 42 in 2007. The volume of traffic terminated to international destinations via T-Com wholesale decreased. This was due to outgoing mobile traffic being partly redirected to mobile-to-mobile direct international routes and a decline in international traffic generated by T-Com retail. The international market position was improved by implementation of new border crossings, upgrades of existing ones, and the new virtual point of presence (PoP) established in Vienna in May 2007. Vienna PoP had several positive influences on T-Com operations:

- new international services were enabled through PoP (international MPLS, VPN, carrier grade Ethernet)
- the traditional data services portfolio is now extended to Vienna, answering the high demand for such services in the Croatian and regional markets
- an important backup route towards existing PoP in Frankfurt has been implemented
- a further drop in Internet upstream costs, resulting in a stronger competitive position for T-Com both in the domestic and international markets.

This has enabled a stable revenue stream of international IP services in neighbouring countries, despite increased competition from strong regional players.


2,384,859 friends in T-Mobile network

T-Mobile

More than 2,3 million customers have opted for T-Mobile Croatia as their provider of mobile communications services. Meeting customers' needs is the ultimate goal for T-Mobile, i.e. to provide cutting-edge technologies and services in parallel with leading global trends

Overview

2007 was a successful year for T-Mobile. Its accomplishments include:

- confirming its overall market leadership in the competitive Croatian mobile communications market with a 46.7% share of the SIM market
- achieving more than 2.38 million subscribers
- signing a national roaming agreement with Tele2 that will be commercially launched in June 2008
- signing an agreement with Agrokor and Com.Com for the launch of a new mobile product in 2008 on the T-Mobile network
- introducing Mobil100, a new product sold by Zagrebačka banka on the T-Mobile network
- offering an array of new products (Flex obitelj, Moji najbolji) and options (e.g. Tulum) that were created to fulfil specific needs in the residential segment
- meeting the needs of the business segment with Ured za van, the first product in the market that provides a full business solution: integrating voice, data and hardware
- introducing join residential T-Mobile and T-Com sales in T-Centres
- obtaining the additional frequency resources necessary for the future development of the radio access network (EGSM, GSM1800)

2007 was also characterized by an intensified battle for customers. Increased competition is visible in decreasing prices, a highly segmented approach to the market and offers targeted at meeting the needs of specific segments or groups of segments.

T-Mobile's total revenue in 2007 amounted to HRK 4,236 million, an increase of 5.1% compared with the previous year. This revenue growth was mainly a result of an increase in service revenues. This was primarily due to strong growth in the postpaid subscriber base, as well as a stable spending pattern by prepaid subscribers.

Major Achievements in 2007

Mobile penetration in the Republic of Croatia increased from 100.4%[1] at the end of 2006 to 115.0% at the end of 2007. T-Mobile maintained its market leader position with an overall SIM market share of 46.7%[2] (2006: 49.1%). At the end of 2007,

1) Based on InfoCom inputs
2) VIPnet and Tele2 results September - December estimated

T-Mobile had more than 684,000 postpaid customers and more than 1,700,000 prepaid customers. As a result of targeted actions, the share of postpaid in total customer base rose from 25.7% to 28.7% during the year. In 2007, the mobile telecommunications market grew by 7.8%[3] , albeit more slowly then in the previous years due to intensified competition and multiple SIM usage.
The growth was sustained thanks to the increase in penetration and an overall increase in mobile minutes.

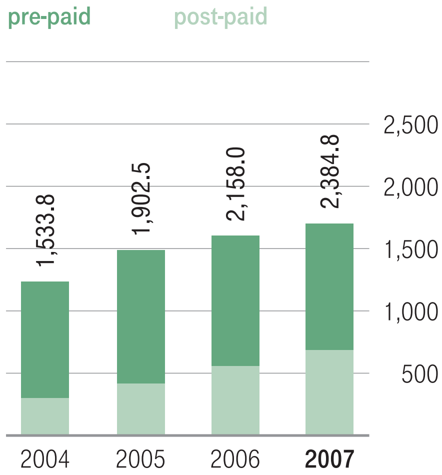
T-Mobile introduced mobile broadband HSDPA solutions. T-Mobile's Mobile Internet tariffs, relying on HSDPA technology, showed encouraging results after a very successful advertising campaign. HSDPA should spur growth in mobile data services due to its superior performance.

Continuous efforts to improve customer relationships during 2007 resulted in an increase in the customer base and customer satisfaction, while high satisfaction with +club increased customer loyalty. Usage of voice services was 20.5% higher than in 2006. Non-voice usage also increased: GPRS usage increased by 643.5%, MMS usage by 21.0% and SMS usage by 7.1%.
T-Mobile offers not only voice services and various tariff plans adjusted to different customer needs but also a number of complementary services, such as messaging (SMS, MMS, mobile e-mail), mobile data (GPRS/UMTS, EDGE, HSDPA, Web 'n' walk, Java download), mobile commerce (m-pay service in partnership with PBZ, SMS kupovina, SMS bon, SMS parking, SMS prijevoz), information services and several solutions targeted at business customers and offers based on specific customers' needs.

Products and Services Development

During 2007, T-Mobile offered an array of new products that were created to fulfil the specific needs of different segments of customers. For the first time in the market, T-Mobile launched Flex Obitelj, a product specifically created for families, which achieved great success. Another unique offer targeting the residential segment was Moji najbolji (favourites), a unique tariff that epitomizes the T-Mobile philosophy of putting customers closer with the people that matter to them most, regardless of which network they use.
Another novelty in the market is the T-Mobile Total tariff, the ultimate, care-free voice tariff that for the first time in the market gives the customer free national calls up to certain limit and favourable roaming prices for a fixed monthly fee. As part of T-Mobile's differentiation strategy and focused market approach, a new and very successful option, Tulum, was launched to attract young prepaid customers.
The business segment needs were met by Ured za van (Office to go), the first product in the market that provides a full business solution: integrating voice, data and hardware. The advertisement for this product was voted "Best TV advertisement ad of the year" by one Croatian business daily.

T-Mobile users
2004 - 2007 (in thousands)



T-Mobile offered Mobil100, a new product specially designed for and sold by Zagrebačka banka, which is offered on the T-Mobile network. A national roaming agreement was signed with Tele2. An agreement was also signed with Agrokor and Com.Com for the launch of a new mobile product in 2008 on the T-Mobile network.

Sales Developments

Although the penetration rate in the SIM market was very high, T-Mobile managed to achieve great sales results. T-Mobile further developed its offer in the customer related process by introducing electronic vouchers in several new retail chains (FINA, e-zaba, Glas Istre, HPB, etc.). Furthermore, in order to advise

3) Based on Net revenues (VIPnet and Tele2 results September - December estimated)

on products and services and increase the efficiency of Point of Sale (PoS) employees, T-Mobile introduced Welcome Managers/T Advisors as the first contact with customers at PoS. The ability to recharge invalid vouchers was also introduced at PoS in order to reduce customer the waiting time needed to resolve complaints. T-Mobile increased its share of e-vouchers to 13.5% in 2007 (2006: 10.7%) and also increased its share of regional distributors for paper vouchers.

To cover the services of buying e-vouchers and bill payment, self-service devices are installed in T-Centres.

T-HT implemented technical corners in selected T-Centres, which improved the presentation of T-Com and T-Mobile services, the presentation of terminal equipment and assistance to customers in the handset repair process. An additional purpose of technical corners is to enable PC software installation for T-Mobile data solutions and to set mobile device features for usage of T-Mobile services.

In 2007, T-Mobile worked actively on business sales and support processes. A major improvement in business support was its reorganization for corporate customers. Clear borderlines and the optimization of responsibilities ensured extra time for field sales personnel. Support for business customers was transferred to a specialized unit, which resulted in improved customer handling processes. Also, the number of contact points from customers towards T-Mobile was reduced, which resulted in higher service quality and a personalized approach.

Throughout the year, T-Mobile upgraded existing technical applications and introduced new ones, which ensured better customer history data and easier and more efficient request handling. This improvement also improved the activation processes through a significant reduction of the activation time and thus customer waiting time.

29%

of postpaid customers in T-Mobile family

Network and Information Technologies

Within the technical business area, in 2007, T-Com was oriented to extende and improve existing Ethernet, IP/MPLS and VoIP network platforms. Furthermore, T-Mobile continued to build its radio access network while IT-SubUnit provided full operational support for the daily business

T-Com

In line with the Company's overall corporate, network and service strategy and Company Marketing plan, the technical business area was oriented during 2007 to extending and improving existing Ethernet, Internet Protocol/Multi Protocol Label Switching (IP/MPLS) and VoIP network platforms. Ethernet and IP/MPLS products were enhanced with Quality of Service (QoS) and Service Level Agreements (SLA) parameters, so the following product upgrades were introduced: SLA + backup for Metro Ethernet (ME) and Private Network (PN) products, PN Premium over ME, ME products upgrade with QoS, Multi Office Product Update. The VoIP platform was additionally upgraded in order to enable VPN services between fixed and mobile voice network platforms for business NetPhone customers and to enable VoIP services for residential customers. Also, in order to further develop the broadband products, improvement was commenced in the IPTV platform, where customers were offered not only IPTV streaming and VoD services but also network Personal Video Recorder (nPVR) functionality and a second Set Top Box (STB) possibility.

As T-Com's wholesale business was growing, some new products had to be developed and implemented in the existing network platform landscape. As a result, Universal International Freephone Service and Ethernet technology as technology for interconnections were introduced. At the same time, the NRA obliged the Company to offer wholesale broadband services, which resulted in the development of Carrier Ethernet and Bitstream products. Additionally, in order to extend the Private Network product over international borders, the Carrier Private Network product was implemented. In addition, T-Com initiated a Request for Information (RFI) process for the Multi Service Network Enabler, call control, which will enable voice services in the IP environment and PSTN customer migration.

In the past year, T-HT Group created its unique, integrated solution named "e-City", the first one being implemented in March 2007 in the city of Koprivnica. It ensures free Internet access to all citizens on selected locations in the city, with the majority of public institutions and organisations (e.g. museum, library, public schools, nursery schools, etc.) connected and integrated in one network using modern telecommunications technologies. The goal of the “e-City” project is to increase the efficiency of the public sector and the quality of its services, as well as to make public services more available to all citizens, highlighting the importance of fast Internet access available in all public institutions.

In order to provide for the safety and further development of the telecommunications infrastructure and telecommunications traffic for the benefit of all users of telecommunications services, T-HT Group and the City of Varaždin signed in October 2007 a Contract on Partnership in Protecting the Distributive Telecommunication Infrastructure (DTI) and the Method of Regulating the Usufruct Rights over Public Areas. The Group will be paying the City of Varaždin, as the owner of public areas, a usufruct fee for public areas with DTI. The fee will be used for the improvement and maintenance of the existing duct system and the construction of a new one. T-HT Group will give other operators use of available space in the duct in line with its legal obligation.

T-Mobile

T-Mobile continued to build its radio access network, ending the year with 1,538 GSM and 459 UMTS locations on-air. T-Mobile also obtained the additional frequency resources necessary for the future development of its radio access network (EGSM, GSM1800). Additional capacities required for the core network in order to meet traffic requirements were installed, together with the necessary hardware and software upgrades in order to support HSDPA requirements.

In 2007, T-Mobile secured the future development of the core network and its move towards the next generation network, which will enable greater network efficiency and the introduction of new services based on IP technology. T-Mobile commenced the consolidation of its services platforms, increasing availability and enabling a better quality of services while reducing operating expenses. In order to secure end-to-end monitoring of its services, T-Mobile established an operational maintenance service centre (Service OMC).

Over the past few years, T-Mobile has intensively cooperated with members of the T-Mobile International group in the Adria region in order to share services, knowledge and experience, thereby reducing costs and accelerating product roll-out.

In the IT domain, T-Mobile continued the development of Data Warehouse (DWH), Customer Relationship Management (CRM) system, upgrades of PoS front-end application (WebPos) and other internal support systems, based on internal customer requirements.
As of 2007, the SAP IS-T system implemented in October 2006 has been used in daily business.
In order to secure the timely development of systems upgrades and the prioritization of requests, T-Mobile introduced release management that proved to be very efficient. The billing application was upgraded with new functionalities in order to support new customer propositions.

In order to assure a high level of data security, T-Mobile implemented an Information Security Management System according to international standard ISO 27001.

In order to secure timely information and prompt reaction to any possible systems malfunction, T-Mobile introduced a Service Malfunctioning Tool as the main channel for incident information flow at the Company level.
In alignment with T-Mobile goals, much effort was put into the area of network quality and customer perception.

IT

Information Technology is one of the key business elements in the telecommunications industry, especially in developing, providing and implementing ICT solutions for complex and innovative telecom services. The Company’s IT Sub-Unit runs 111 software applications, providing 83 different IT corporate services.

In line with the “Save for Service” corporate strategic goal, the IT Sub-Unit carried out a series of activities in 2007 concerning the consolidation, integration and optimisation of systems within the information technology landscape. It also successfully executed projects of varied complexity while providing full operational support for daily business.

The main strategic objective of the IT Sub-Unit is to contribute to an increase in the Company's top line growth together with improvement of bottom line efficiency and cost savings. In order to support product development, IT implemented programs to decrease time to market and improve service quality, thus increasing customer satisfaction. Some of main Achievements are:

1 New products, campaigns and promotions implemented in IT systems
2 Process optimizations implemented in IT systems supporting ADSL and MAXtv service
3 ADSL self-installation implemented in IT systems
4 Metro Ethernet implemented in Customer Relationship Management (CRM) and provisioning systems
5 Wholesale processes implemented for the automation of data exchange with the Croatian Agency for Telecommunications
6 Bar-code readers implemented in all T-Centres
7 Long Term Data Storage and Disaster Recovery Centre, end of 1st phase

A new IT organization was approved in 2007 and fully implemented in the beginning of 2008. Its main aims are to consolidate IT architecture, to develop Business Value Management and to be proactive towards the business needs of the Company.

To achieve the alignment of IT strategic goals with the real business needs, the Company introduced a new approach - IT Governance Framework. IT Governance contains of a series of policies that provide the management and control of business operations, processes and data through alignment, value delivery, risk management, resource management and performance management.

1,538 & 495

GSM & UMTS locations on-air: great benefit for mobile technology users

Human Resources

The development of skilled, service-minded employees, focused on customers' needs is one of the key goals of HR policy. Hence, last year, Company has introduced a performance management system for all employees, linking the performance of every employee to its strategy and its market success

The Group can achieve its key strategic goals only with motivated employees, with their knowledge, abilities and performance. The development of skilled, service-minded employees that understand customer needs and new technologies plays an integral role in building and developing relationship to the customers and increase customer satisfaction .

Performance management system was extended to all Company employees in 2007 with the main goal of remunerating employees according to their performance. This has provided linking of the performance of every employee to the strategic goals of the Company and its market success. In addition to evaluating and rewarding each employee's performance individually, it ensures each employee's awareness of the Company's strategic goals and priorities.

In 2007, efforts were put into aligning the number and structure of employees through

- hiring an expert workforce
- intense training and development
- a headcount optimization program

Through its efforts to improve its processes, the Company is proud to have acquired the ISO 9001 certificate for our HR Management processes: recruitment, compensation and benefits, and personnel administration.

Process improvement was continued through further implementation of the HR IT system to further develop process and information efficiency and transparency and to decrease administration and paperwork.

Socially Responsible

The Support /Outplacement programme Support Plus, initiated in 2006 continued to enhance the process of headcount optimization and to provide employees with individual counselling, workshops and professional help to prepare them to re-enter the labour market.

The Company initiated a Foundation to help employees and their family members with increased medication costs. The Foundation is expected to get permission to start operations in the course of 2008.

Along with continuance of work of the Company's Closed Voluntary Pension Fund, which has 745 members, T-Mobile founded its own closed voluntary pension fund, as agreed in the Collective Agreement. By the end of the year,

3,000

employees participated in various forms of training

125 T-Mobile employees had joined the fund.

The commitment of the Company to socially responsible behaviour is also incorporated through health care for its employees as well as work safety.
The company gives special emphasis to promoting diversity and equal opportunities.
The brochure for pregnant women issued as support to parenthood was acknowledged by UNDP.

In addition, constructive social dialogue continued in 2007 leading to the stability necessary for successful change implementation, which is necessary to continuity of Company's market succes.

Learning Organization

Continuous learning and development are an essential part of the Company in an environment of fast technological development and constant market changes and challenges. Through learning and development, we successfully meet our customers' requirements and meet their needs and expectations.

In 2007 a Potential and Performance Review development tool was provided to executive directors and directors in T-HT Group. This program provides a precondition for personal and professional development of managers on both group and individual level. Potential and Performance Review was followed and supported by the management training programmes which focused on the areas of leadership, strategic thinking and effective organization. Special attention was given to managing performance as support to successful introduction of performance management.

In 2007 the Company continued its permanent investment in the development of key competencies and the overall capacities of employees. The employee development programs focused mainly on training in the areas of project management, communication and customer relations, the new market and telecommunications environment. Also other topics were covered so all together over 3,000 employees participated in various forms of training.

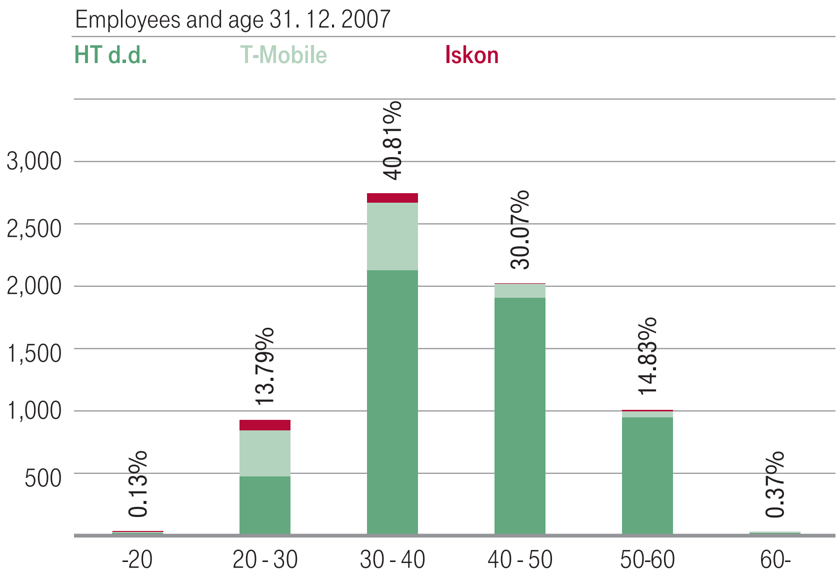
Besides from live learning and internal training which was given special attention, 15 different e-learning courses were used by over 4,000 employees.

To ensure continuous and cost effective training facilities, an available space was rebuilt to become the T-HT Training Centre.

Closer to the Customer

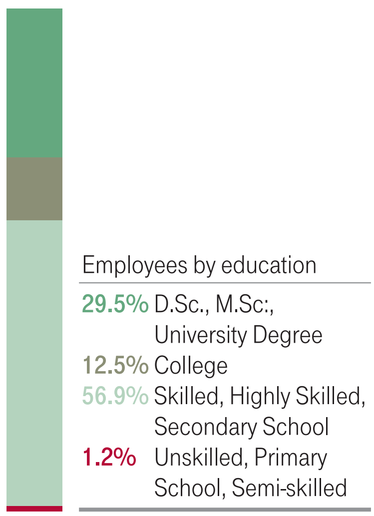
Getting closer to the customer is one of the main targets in T-HT Group. In 2007, several projects were developed to achieve this goal.
T-Com started a major project called "Technician as Salesman". The goal of the project is to enable technicians to sell T-Com services and products in the Residential and SME market segments. The goal is to be reached through improving the service culture and efficiency and through providing customers with quality service and information at every place of contact with employees. By the end of the year, 180 technicians had been trained in sales skills and T-Com products and services.

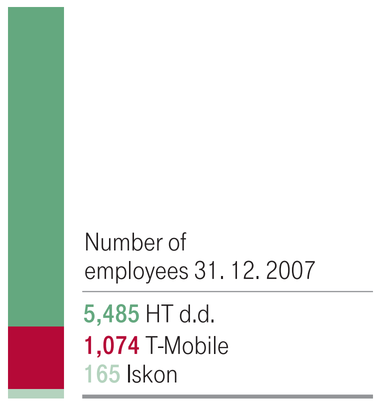
The T-Mobile "Bringing Customers into the Loop" project was designed to recruit salesmen-trainees in T-Mobile shops. In line with market segmentation, T-Mobile selected customers from all parts of Croatia who participated in the recruitment



of new employees in shops together with our managers. Candidates went through the Assessment Centre during a recruitment process in which the Faculty of Philosophy at the University of Zagreb was T-Mobile's partner. This enabled T-Mobile to recruit the best candidates.

Another step aimed at bringing the whole of T-Mobile closer to the customer was made through the "Closer to the Customer - Management at your Service" project. The project was developed to enable managers to better get to know customers and their needs through direct shop experience. This was also an excellent opportunity for sales staff to acquaint management with the challenges they are facing in their everyday work and to point out the value and importance of their work.






40 humanitarian projects in 2007

Corporate Social Responsibility

T-HT has continuously been implementing social responsibility values in its business operations. This value approach has been regularly reinforced with sponsorship and donation activities, and realized through numerous cultural, sports, humanitarian and ecological projects

Corporate social responsibility is fully integrated in the long term strategy of T-HT Group.
The value approach, adopted by the Group in its business operations, is based on the company's sense of responsibility for society and the environment, which the Group constantly supports through sponsorship and donations.

T-HT regularly cooperates with educational, cultural, and scientific institutions, with non-governmental organizations which take care of persons with special needs, disadvantaged persons, or the ill, and with organizations promoting the values of civil society. The Group's sponsoring strategy is focused on cultural activities and sports both at the corporate level and through the activities of its business units - T-Com and T-Mobile.

Donations and Sponsorship

The Group

In cooperation with the Ministry of Science, Education and Sports, T-HT is the holder of the "Net in School" project for the introduction of Internet into Croatian schools. For the fifth successive school year, pupils of primary and secondary schools can access Internet free of charge. The Group has been supporting the introduction of Internet to Croatian schools, started by the Ministry of Educations and Sports, since 2001. The "Net in School" project was launched in June 2003.

T-HT was the main partner of UNICEF in Croatia for the third year in a row, providing financial support and support in kind for UNICEF projects.
By doing so, T-Hrvatski Telekom paved the way for new forms of social engagement by Croatian companies, where not only financial funds are made available to humanitarian organizations but also company know-how in order to promote and achieve goals which are significant for the entire society. In addition to financial support, T-HT donated to UNICEF the production and delivery of money orders which are sent

together with telephone invoices to all our customers, enabling them to donate funds and thus support UNICEF projects.

The "The First 3 Matter Most!" joint campaign of UNICEF and T-HT for the early development of children and educational support for their parents is currently being implemented. The campaign was launched in 2006 and continued in 2007 with a sales campaign called "Communications Experts", the goal of which was to raise additional funds for the implementation of the "The First 3 Matter Most!" program. During the campaign, specially designed children's T-shirts bearing the slogan "Communications Experts" were sold in all T-Centres in Croatia, with the revenues going to UNICEF.

A humanitarian telephone line was also opened for raising funds for the families of the firemen who were tragically injured while extinguishing a fire on an island in the Kornati.

T-HT is one of the holders of the "Petrova trudionica" campaign which was launched to raise funds for furbishing Pregnancy Pathology Ward II at Petrova Hospital in Zagreb. T-HT provided a telephone number and installed a call centre which enabled all citizens to make a contribution through telephone calls.
The funds for improving the hygiene conditions for the long-term stay of future mothers from all around Croatia at the ward in Petrova Hospital were collected at the beginning of 2008.

With sponsorship worth 2 million kuna, T-HT became the main partner of the Museum of Contemporary Art in Zagreb. The key projects realized through this cooperation include the exhibition and award competition in the area of contemporary art called T-HTnagrada@msu.hr; the awarded works were bought, representing the beginning of the future "T-HT Collection of Contemporary Art". This collection will be an integral part of the holdings of the Museum of Contemporary Art, Zagreb. The Collection is planned to be expanded in 2008.
In 2007, T-HT continued its several-year-long tradition of sponsoring the Croatian national theatres in Zagreb, Osijek, Split, Rijeka and Varaždin.

The "Closer to the Smiles" donation campaign was expanded in such a way that the employees of the T-HT Group collected gifts for children in hospitals and children's homes all over Croatia. The campaign, which was launched on the initiative of T-Mobile three years ago, was also joined by the other members of the T-HT Group in 2007. More than 4,000 gifts were collected, giving joy to children who had to spend their holidays far from their families.

The Group's donations are mostly directed to humanitarian projects and cultural institutions. A major regional donation program in the area of culture and education, "Together We Are Stronger", was implemented for the second successive year. Within this competition, the employees of T-HT Group proposed various educational and cultural projects; 60 projects were selected and more than 1 million kuna were donated. The majority of the projects were intended to help children and persons with special needs, and to equip schools, faculties, libraries, and institutions and organizations dealing with the preservation of Croatia's cultural heritage. With their proposals and suggestions, the employees of the Group contributed to the realization of important cultural and educational projects in all parts of Croatia.

Apart from these major campaigns, the Group provided financial support to a number of other praiseworthy humanitarian projects. Caritas, the Krijesnica organization and the "Ana Rukavina" Foundation received financial support, as well as other humanitarian organizations and hospital institutions.

In 2007 T-HT became the partner of Microsoft in the "Imagine Cup" project which gathers student and pupil teams from all over the world in the area of information and communications technology development. Last year's topic was "Imagine a World Where Technology Enables a Sustainable Environment". The number of competitors in software design, program and user interface, computer games, computer algorithm development, film making and photography is expected to exceed the previous number of 130,000 students from 100 countries.

Sport has a huge influence on society as a whole, and in 2007 the Group continued to be the general sponsor of the Croatian Olympic Committee, thus connecting the company's values with the best tradition of the Olympic Games: fair competition and encouragement of young people to work hard in order to achieve their goals and become valuable assets to their community.

In 2007 T-HT supported the biggest technological conference in Croatia, WinDays 2007, the Jubilee MIPRO Conference, and other events related to the telecommunications sector, economic development and IT community development. By providing funds or the necessary telecommunications infrastructure and equipment to a larger number of international and national forums and conferences, the Company again confirmed its role as the leading telecommunications operator in Croatia.

T-Com

Following its strategy of sponsoring football, the most popular team sport in Croatia, T-Com continued its "I Love FooTball" campaign in order to ensure high-quality conditions for the sport's development and to encourage sports in general. In the course of the third year of the "I Love FooTball" project, T-Com decided to introduce certain changes and so became the main sponsor of the First Croatian Football League in 2007/2008. The League changed its name to T-Com First HNL. T-Com continued sponsoring the four major Croatian football clubs - Dinamo, Hajduk, Osijek, and Rijeka - one club from each of four regions, in accordance with the regional organizational structure of the company.

With the KulTurist project worth more than 3 million kuna in financial aid or services, T-Com again helped to organize a large number of cultural events all over Croatia. Last year, T-Com, as the leading provider of fixed telephony and Internet services in Croatia, supported for the third successive year the following big cultural events: Vukovar Film Festival, Pula Film Festival, Split Summer Festival, Libertas Film Festival, International Small Scenes Festival Rijeka, Zagrebdox (festival of documentary films), International Festival of Laughter in Istria, and Ulysses Theatre. Through its selection of sponsored festivals within the KulTurist project, T-Com actively helped to strengthen the Croatian cultural scene from Dubrovnik to Vukovar, sharing its market success with the society in which it operates.

T-Com also became the main partner of RTL's major humanitarian project "RTL Helps Children". T-Mobile also took part in these projects, waiving its entire revenue from calls and SMS to humanitarian numbers.

T-Mobile

In line with its social responsibility and the idea that efficient communication helps to protect and save human lives, T-Mobile continued its humanitarian project "Halo Ambulance" in 2007. A donation was granted to the ambulance service of the County of Osijek and Baranja for an educational project aimed at reducing the number of false calls to the ambulance service. In addition, T-Mobile donated a monitor for vital functions to Split Medical Emergency Service.

T-Mobile was the general sponsor of the world cup FIS race on Sljeme - Snow Queen Trophy, the personal sponsor of the best Croatian skier, Janica Kostelić, and the general sponsor of the Croatian Alpine Skiing Representation. T-Mobile also actively supported sailing by sponsoring two prestigious regattas: the Easter Regatta and the Mrduja Regatta. It was also the sponsor in League 13. T-Mobile is the personal sponsor of the sailer Ivan Kljaković Gašpić Bambi, European and world champion in the Finn class.

In cooperation with the Bicikl (Bicycle) organization, T-Mobile

>4,000

gifts collected within donation project “Closer To Smiles”, from hearts of T-HT employees

organized an educational project for primary school children called “To School by Bicycle”, which covered 5,500 children in 16 schools all over Croatia. The project aimed at raising awareness about security in traffic and at promoting the bicycle as a healthy, ecologically acceptable and children-friendly means of transport.

Based on a sponsorship contract with Nina Badrić, one of Croatia’s most popular singers, T-Mobile made an exclusive offer of Nina’s music for mobile phones. T-Mobile also sponsored the Pips, Chips & Videoclips album and published it exclusively on Sony Ericson SEW200i phone, which was the first case that a performer published their album on a mobile device. T-Mobile also sponsored the band’s tour.

In 2007 T-Mobile was the major sponsor of the Rijeka Cultural Summer. It was also the sponsor of several conferences, such as the Science Festival in Osijek.

Ecology

Environmental protection is incorporated within T-HT’s most important business processes, which are oriented towards satisfying customer needs. This strategy was implemented within the concept of sustainable development and a high level of social responsibility towards the environment in which it operates.

In January 2007 T-HT Group adopted General Guidelines for Environmental Management which established an internal regulatory framework for setting directions and executing all obligations both regulated by law and self-imposed in the area of environment protection.

Waste prevention, separate collection and proper waste care are everyday aspects of waste management in the company. Last year, a new Act on waste and a range of ordinances on taking care of particular kinds of waste were adopted at the state level, among which the most important for the company’s operations was the ordinance on electric and electronic waste. The implementation of this ordinance started in the second part of 2007. The company already had a system for taking care of that kind of waste so it only had to adjust to the new system, start to report on quantities of directly imported EE equipment and pay a prescribed fee for its later care.

A large number of special containers were placed on company premises in 2007 for the separate collection of paper, PET bottles, toner cartridges, batteries and small EE devices and accessories. Containers were placed on conveniently selected company locations all over the country for collecting used motor oil, antifreeze, filters and oiled packaging. The collection of fluorescent tubes and accumulators was also organized. The action labelled “Clean Communication” was conducted country-wide, during which appropriate containers for collecting used batteries were placed in all T-Centres.

To prevent water and soil pollution, the measurement, testing and calibration of tanks for liquid fuels (heating oil) were carried out in Region North. Tanks which were out of use because of conversion to an ecologically more acceptable kind of heating fuel (gas) were also dealt with.

The Company uses energy in its telecommunication networks and IT systems (for powering, ventilation and air conditioning), for heating of working spaces and in its vehicle fleet. By consuming energy, be it directly or indirectly, greenhouse gases like carbon dioxide (CO2) are generated which cause climate changes and global warming. Last year, the Company was actively involved in the struggle for climate protection by formulating and adopting its own Energy Policy with the purpose of defining its approach to energy consumption management and establishing the foundations for setting targets for controlling energy consumption and emissions of greenhouse gases. This Energy Policy demonstrates T-HT's commitment to climate protection and slowing down global warming, and its support for the provisions of the Kyoto protocol.

The company car fleet, consisting mostly of diesel-fuelled vehicles, was significantly renewed last year by the purchase of new vehicles with better CO2 emission factors. This lowered the average age of T-HT company vehicles to only 3 years and 3 months.

T-Mobile went beyond the legal requirements in the field of environment protection by introducing the ISO 14001 Environmental Management System in 2002. This binds the company to develop awareness about environmental issues both with its employees and the general public. The annual external audit performed in September 2007 showed the high level of environment awareness of our employees, proved that environment protection is deeply incorporated in our everyday business and confirmed that T-Mobile is systemically and dedicatedly committed to ecological issues.

T-Mobile, being a responsible telecommunications company, supports and encourages comprehensive and detailed scientific research and monitors investigations by a series of organizations, independent groups, expert teams and scientists on the impact of electromagnetic radiation. In respect to electromagnetic fields protection, T-Mobile conducts its business in accordance with the By-law on EMF protection, passed by the Ministry of Health and Social Welfare of Republic of Croatia.

8,838 million kuna: T-HT's revenues in 2007


8.8

Financial Review 2007

The Group's total consolidated revenues for the year ended 31 December 2007 amounted to HRK 8,838 million. Its consolidated operating profit stood at HRK 2,519 million, while its net profit for the year amounted to HRK 2,471 million

Consolidated Revenues

Total consolidated revenues increased by 2.3% to HRK 8,838 million in 2007 from 8,636 million in 2006. Revenues growth was primarily driven by mobile telephony and Internet services and, to a lesser degree, by wholesale services.

Consolidated Operating Costs

Total consolidated operating costs before depreciation and amortization increased by 7.0% to HRK 5,136 million in 2007 from HRK 4,798 million in 2006.

Cost of Merchandise, Consumables and Maintenance Materials

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

Cost of Services

The costs of services increased by 6.9% to HRK 2,372 million in 2007 from HRK 2,219 million in 2006. This was mainly due to increases in domestic and international connection services, maintenance costs (partly due to the outsourcing of such services and a significant increase in the ADSL and ULL customer base) and rental costs. This increase was partially offset by a decrease in advertising costs.

Staff Costs

Total staff costs before exceptional items related to redundancy costs decreased in 2007 by 2.7% to HRK 1,199 million from HRK 1,232 million in 2006. This is a result of ongoing progress in our planned headcount reduction programme. In Q4 2007 provisions for redundancy of HRK 79 million were made versus HRK 11 million in 2006. As a consequence, staff costs after exceptional items increased by 2.8% to HRK 1,278 million in 2007 from HRK 1,243 in 2006. Redundancy costs and related accrued liabilities include the amount of gross severance payments for employees whose employment contracts will be terminated during 2008 for business reasons. As at 31 December 2007, the Group had 6,724 employees compared to 7,498 employees as at 31 December 2006.

Work Performed by the Group and Capitalized
The work performed by the company and capitalized decreased by 28.9% to HRK 143 million in 2007 from HRK 201 million in 2006 as a result of lower capex realization and a lower price per capitalized working hour.

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

Other Costs
Other costs increased by 1.8% to HRK 608 million in 2007 from HRK 597 million in 2006. This was mainly due to provisioning for loyalty programs and legal cases, which was offset by a decrease in consulting fees, costs of VAT on free deliveries, cost of business trips, security costs and other costs.

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

T-HT Group Profitability

EBITDA (before Exceptional Items)
EBITDA before exceptional items decreased by 0.2% to HRK 4,050 million in 2007 from HRK 4,060 million in 2006. This was mainly due to a higher increase in operating costs than the increase in revenues.

Exceptional Items
There were HRK 95 million of exceptional items in 2007, consisting of HRK 79 million in provisions relating to redundancy costs and HRK 16 million in costs relating to the IPO process.
In 2006, there were HRK 19 million of exceptional items, consisting of HRK 11 million in provisions for redundancy costs associated with the restructuring program and HRK 8 million in costs relating to a warehouse closing project and waste management of inventory.

Consolidated Operating Profit (EBIT)
Consolidated operating profit decreased by 2.0% to HRK 2,519 million in 2007 from HRK 2,571 million in 2006. This was mainly due to an increase in redundancy costs and lower capitalization of work performed by company.

Consolidated Net Profit
Consolidated net profit increased by 11.6% to HRK 2,471 million in 2007 from HRK 2,214 million in 2006. This increase in net profit was primarily due to income from equity accounted investments relating to the Group's investment in HT Mostar d.o.o.
There were one-off profits of HRK 188 million relating to the reversal of impairment provisions and a further one-off profit of HRK 47 million arising from the disposal shares, both in connection with the investment in HT MObilne Mostar.

T-HT Group Financial Position

Consolidated Balance Sheet
Total consolidated assets at the end of 2007 amounted to HRK 15,292 million, representing a decrease of 1.1% compared to 2006. The decrease in consolidated assets was driven by a decrease in short-term assets due to a high dividend distribution.

Total consolidated liabilities amounted to HRK 2,717 million as at 31 December 2007, which is a slight decrease from HRK 2,727 million in 2006.

As at 31 December 2007, consolidated shareholders' equity (capital & reserves) amounted to HRK 12,575 million, which represents a decrease of 1.2% compared to the amount as at 31 December 2006. Retained earnings in 2007 increased by HRK 2,471 million in net profit for the year but decreased by HRK 2,617 million in dividend payments and HRK 6 million in transfer to legal reserves.

In April 2007, the General Assembly declared a dividend payment to shareholders of HRK 207 million (HRK 2.53 per share) from 2006 net profit; this dividend was paid in May 2007.
In September 2007, the General Assembly declared an extraordinary dividend payment

of HRK 2,410 million (HRK 29.43 per share), which was paid in September 2007.

Consolidated Cash Flow

Cash flow from operating activities is still T-HT Group's principal source of funds enabling the company to finance capital investments and dividend payments.

Net cash inflow from operating activities amounted to HRK 3,155 million in 2007, which represents a decrease of 18.6% compared to 2006. This is primarily a result of changes in operating working capital.

Investment activities in 2007 resulted in a net cash inflow of HRK 1,592, while in 2006 they resulted in a net cash outflow of HRK 4,686 million. This increase was primarily due to a higher sale of available-for-sale financial assets in 2007 as a result of higher yields on deposits than on treasury bills and unit holdings in money market funds.

The net cash outflow from financing activities amounted to HRK 2,626 million in 2007, which is a major increase from HRK 825 million in 2006. This increase was generated by significantly higher dividend payments in 2007.

CAPEX

Capital expenditure decreased by 12.4% to HRK 1,248 million as at 31 December 2007 from HRK 1,425 million as at 31 December 2006.

T-Mobile's capital expenditure in 2007, which was focused on building capacity, certain IT projects and 3G networks, decreased by 28.7% to HRK 373 million from HRK 524 million in 2006, primarily due to changes in the timing of network projects.

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

Financial Result of Segments

Segment Information

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

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

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

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

T-Mobile

Revenue

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

T-Mobile's subscriber base increased from 2,158,033 subscribers in 2006 to 2,384,859 subscribers in 2007, or by 10.5%. Both prepaid and post-paid subscribers contributed to the increase in the subscriber base as a result of targeted offers. The post-paid share in the total subscriber base increased by 3.0 p.p. to 29% as a result of acquisitions, prepaid to post-paid migrations and low churn.

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

Blended ARPU showed a declining trend over this period as a result of a drop in prices, increased penetration through multiple SIM usage and penetration of the lower-end segment. This decrease in ARPU was partially offset by a shift of subscribers from prepaid to post-paid (as the latter typically have a higher ARPU) and an increase in mobile usage. Consequently, SAC per gross add was managed down in order to maintain profitability relative to revenues.

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

EBITDA

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

T-Com

Revenue

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

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

Revenue from Fixed Telephony

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

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

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

Revenue from Wholesale Services

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

The major drivers of revenue growth in our national market are telecom services provided to licensed operators; revenue from infrastructure services to national operators (ULL, co-location, DTI etc.) increased.

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

At the end of 2007, 38,179 lines were fully unbundled and leased to other Operators, whilst a new Shared Access ("SA") service resulted in the delivery of 200 lines. Termination of international traffic into the Republic of Croatia and neighbouring countries continues to generate the majority of revenue for our international wholesale business. Our international market position was improved last year by the implementation of upgrades of existing bilateral border crossings and through the new virtual Point of Presence (PoP) we established in Vienna in May 2007.

Revenue from Internet Services

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

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

Although the total number of dial-up users is growing, the number of active users is decreasing due to customer migration towards broadband access. The ARPU for dial-up customers decreased by 7.2% in comparison to the previous year.
As of 31 December 2007, T-Com had 43,734 MAXtv customers.

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

Revenue from Data Services

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

EBITDA

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

Consolidated Financial Statements

General Information

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Act in force, the Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASC) which give a true and fair view of the financial position and results of the Group for that period.
The Board has a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the consolidated financial statements.
In preparing those consolidated financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position of the Group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Act in force. The Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The accompanying consolidated financial statements were approved for issuance by the Management Board on 18 February 2008.

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

18 February 2008

On behalf of the Group,

Ivica Mudrinić
President of the Management Board

Auditors' Report

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

We have audited the accompanying consolidated financial statements ("the financial statements" of HT - Hrvatske telekomunikacije d.d. ("HT d.d.", "T-HT" or the "Parent Company") and its subsidiaries (together, the Group) which comprise Consolidated balance sheet as at 31 December 2007 and Consolidated income statement, Consolidated statement of recognised income and expenses and Consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 79 to 120.)

Management Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of the Group as at 31 December 2007 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to the following matters:

Ownership Over and Right to Use Ducts

As explained in Note 11, although the assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of T-HT, HPT Public Company, by virtue of the " Separation of Croatian Post and Telecommunication Act" and contributed by the Republic of Croatia to the share capital at the foundation of T-HT on 1 January 1999, according to other Croatian legislation, part of T-HT's infrastructure that may be considered as a real estate and which is known as Distributive Telecommunication Infrastructure (DTI or ducts) - does not have all necessary documents (building, use permits etc.) and a major part is not registered in the land registry, which may be relevant for the issue of proving the ownership towards third parties. Current intrusions in T-HT ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the financial statements in the case that T-HT will not be able to prove its ownership rights on some ducts. T-HT formed the Infrastructure Documentation & Registration department that is responsible to ensure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on T-HT, but also on local and state authorities (see Note 11). The net book value of all T-HT's ducts at 31 December 2007 is HRK 856 million.
In August 2006, the Croatian Agency for Telecommunication (HAT) made a temporary decision by which, starting from 1st October 2006, HAT will take responsibility for government and common use of ducts that are formally disputed by others when the owner of telecommunication infrastructure is not determined. Fees should be paid in from the side of all operators into a temporary account of HAT and after legal resolution of the real owner of the ducts all cash paid in will be transferred to the owner's account. No payments or provisions have yet been made in this respect.
In connection with the offer for sale of ordinary shares the Government of Republic of Croatia (RoC), the Group and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Interalia this provides the underlying principles underwhich right of way charges and shared usage issues will be based. The parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to

- protect the integrity of T-HT's balance sheet;
- recognise the investments of T-HT and its legal predecessors in DTI; and,
- enable future (long-term) usage of DTI by T-HT in a manner consistent with its current usage.

Such aimed solution regarding the DTI shall be consistent with EU practices and standards. Management believe that agreement as set out in the Memorandum of Understanding should bring greater clarity to the issues presently identified with respect to the use of the DTI. The provisions of the agreement need to be implemented and it is not expected that implementation will be completed until later in 2008. The Government of the Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible.
It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged.
T-HT assessed and declared the existence of the risks thereon, including of obtaining legal opinion with respect to certain of the issues

involved; however, due to the fact that these issues are very complex so far T-HT was not able to determine the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to inability to prove title or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect.

Competition Agency Enquiry

As explained in Note 27, there has been a complaint made by competitor VIPnet d.o.o. towards the Competition Agency regarding Frame Agreements that T-HT and T-Mobile Croatia d.o.o. signed with its key and large business clients that allegedly contain anti competitive clauses. The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Protection of Market Competition Act.
The Group delivered to the Agency all requested Frame Agreements and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceeding for assessing whether the T-HT and T-Mobile Croatia d.o.o. have abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Agency brought decision that HT d.d. and T-Mobile Croatia d.o.o. abused their dominant position by conclusion of these Frame Agreements and that it will pass the case to the misdemeanour court for determining whether the misdemeanour occurred and, if yes, assessing the penalty.
At the time of authorization of these financial statements, T-HT was not informed about the initiation of the proceedings before the Misdemeanour Court. The penalty for violations of the Protection of Market Competition Act could amount up to 10% of the annual HT d.d. and T-Mobile Croatia d.o.o. turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.
A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT - Optima Telekom d.o.o to the Croatian Telecommunications Agency in June 2006. The Agency has now referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether a misdemeanour has been committed. The decision of the telecommunications inspector is still pending. It should be pointed out that the penalty for violations of the Telecommunications Act could amount between 1% and 5% of the annual turnover of the T-Com business unit. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.
T-HT and T-Mobile Croatia d.o.o. are vigorously defending both these situations. There is no history of significant settlements in Croatia under either the Competition Act or imposed by misdemeanour courts. Due to lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the likelihood of the possible outcome of these cases, however management believes that any settlement will be significantly less than maximum penalties outlined above.

Consumer Act Claims

As explained in Note 27, currently, the Company is involved in legal proceedings for alleged breach of the Consumer Act. The claimants are residential customers of the T-HT (as well as the consumer protection association) and are contending that the T-HT's monthly access charges in its consumer contracts are unjust and in breach of the Consumer Act.
The Company has been informed that approximately 42,000 consumers signed a collective petition in respect of this matter in 2003 and that it is possible that T-HT could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by Company's legal advisors that many of these petitions would be invalid. The Company's legal advisors have assessed that the maximum exposure with respect to 42,000 petitioners could amount to approximately HRK 150 million, including interest.
The exposure could be greater than this if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged.
The Company had approximately 1,350,000 consumers at the time of the claim.
The Company vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement. It believes that it should win on appeal. Management and T-HT's legal advisers consider that this claim is without merit and the Company considers

it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government, and that adverse settlement of this case is remote. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.
On 12 April 2007, the County Court of Zagreb announced a judgement against the Company and in favour of the six claimants resulting in a potential settlement of HRK 12 thousand for the period claimed for and including interest to 30 June 2007. Since the judgement has been made four members of the Consumer Association filed individual claims before Zagreb Municipal Court based on the same substance as adjudicated by the non-final Consumer Fraud Litigation judgement. Both T-HT and the State Attorney objected to these claims. The Company believes that individual claims can not even be discussed while the substance stands under appeal within Consumer Fraud Litigation. Within the litigation and after delivery of the written judgment, all of the litigants (Plaintiff - Consumer Association, Municipality State Attorney representing Republic of Croatia and the Company) have submitted an Appeal against the Court of First instance before Zagreb County Court.
No adjustments have been made to these consolidated financial statements relating to any of these matters.

Ernst&Young d.o.o.

Slaven Đuroković

Zagreb
Republic of Croatia

18 February 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Rendering of services		8,598	8,386
Sale of goods		240	250
Revenue	3	8,838	8,636
Other income		253	203
Costs of merchandise, consumables and maintenance materials		(867)	(735)
Cost of services	4	(2,372)	(2,219)
Employee benefits costs			
Gross salaries		(904)	(907)
Taxes, contributions and other payroll costs		(271)	(301)
Redundancy expenses	6	(79)	(11)
Other long-term employee benefits	20	(24)	(24)
Work performed by the Group and capitalised		143	201
Depreciation and amortisation	5	(1,362)	(1,402)
Impairment of non-current assets	5	(74)	(68)
Write down of current assets		(154)	(205)
Other costs	7	(608)	(597)
Total operating costs		(6,572)	(6,268)
Operating profit		2,519	2,571
Interest income		331	223
Financial expense		(19)	(8)
Share of profits of associates	13	-	1
Income from investment in joint ventures	14	256	-
Profit before taxes		3,087	2,787
Taxation	8	(616)	(573)
Net profit for the year		2,471	2,214
Earnings per share	9		
Basic and diluted, for profit for the year attributable to ordinary equity holders of the Company		30.18 HRK	27.04 HRK

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

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Assets			
Non-current assets			
Intangible assets	10	1,005	1,126
Property, plant and equipment	11	6,153	6,244
Investments in associates	13	2	99
Investment in joint venture	14	348	-
Available-for-sale investments	15	43	14
Goodwill		77	78
Non - current receivables		31	32
Deferred tax asset	8	82	91
Total non-current assets		7,741	7,684
Current assets			
Inventories	16	230	175
Trade and other receivables	17	1,266	1,135
Prepayments and accrued income		62	49
Available-for-sale investments	15	93	878
Time deposits	18 b)	2,533	4,283
Cash and cash equivalents	18 a)	3,367	1,254
Total current assets		7,551	7,774
Total assets		15,292	15,458

Consolidated Balance Sheet (continued)

As at 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Equity and liabilities			
Issued capital and reserves			
Subscribed share capital	23	8,189	8,189
Legal reserves	24	409	403
Fair value reserves	25	2	12
Retained earnings	25	3,975	4,127
Total issued capital and reserves		12,575	12,731
Non-current liabilities			
Provisions	22	90	97
Employee benefit obligations	20	201	199
Deferred income	21	143	152
Long-term loans and other long-term liabilities		20	24
Total non-current liabilities		454	472
Current liabilities			
Trade and other payables	19	1,513	1,383
Provisions for redundancy	6	231	428
Provisions for short - term liabilities	22	46	-
Deferred income	21	378	376
Income tax payable		95	62
Short-term borrowings and current portion of long-term loans		-	6
Total current liabilities		2,263	2,255
Total liabilities		2,717	2,727
Total equity and liabilities		15,292	15,458

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

Signed on behalf of HT Group on 18 February 2008:

I. Mudrinić

J. P. Czapran

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Operating activities			
Net profit		2,471	2,214
Depreciation charges	5	1,362	1,402
Impairment loss of non-current assets	5	74	68
Income tax expense	8	616	573
Interest income		(308)	(184)
(Gain) / loss on disposal of assets		(3)	17
Dividend from associates	13	-	(1)
Income from investment in joint venture	14	(251)	-
(Increase)/decrease in inventories		(60)	2
(Increase)/decrease in receivables and prepayments		(128)	191
Dividends received		(5)	-
Increase in payables and accruals		90	329
Increase in employee benefit obligations	20	6	6
Interest paid		-	(1)
Decrease in provisions		(148)	(160)
Value adjustment of inventories		6	2
Other non-cash items		9	(38)
Increase in recognised actuarial losses		(2)	-
Taxes paid		(574)	(545)
Net cash flows from operating activities		3,155	3,875
Investing activities			
Purchase of non-current assets	10,11	(1,245)	(1,425)
Purchase of non-current financial assets		(25)	-
Acquisition of subsidiary, net of cash acquired		-	(78)
Proceeds from sale of non-current assets		17	12
Proceeds from sale of non-current financial assets		14	80
Proceeds from sale / (purchase) of current financial assets		143	(4,046)
Purchase of available for sale financial assets		(29)	-
Proceeds from sale of available for sale financial assets		2,258	754
Purchase of held to maturity financial assets		-	(145)
Proceeds from sale of held to maturity financial assets		145	-
Interest received		309	161
Dividend received		5	1
Net cash flows from/(used in) investing activities		1,592	(4,686)

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2007

	Notes	2007 HRK millions	2006 HRK millions
Financing activities			
Repayment of long-term borrowings		(6)	(12)
Repayment of lease liability		(3)	-
Dividends paid	25	(2,617)	(813)
Net cash flows used in financing activities		**(2,626)**	**(825)**
Net decrease in cash and cash equivalents		2,121	(1,636)
Effect of F/X rate changes on cash and cash equivalents		(8)	1
Cash and cash equivalents at 1 January		**1,254**	**2,889**
Cash and cash equivalents at 31 December	18 a)	**3,367**	**1,254**

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

Consolidated Statement of Recognised Income and expense

For the year ended 31 December 2007

	Notes	**31 December 2007 HRK millions**	31 December 2006 HRK millions
Income and expense recognised directly in equity			
Valuation losses from available for sale financial assets	15	(10)	(9)
Deferred tax liabilities on items directly recognised in equity		(1)	(1)
Other		1	(4)
Net income recognised directly in equity		**(10)**	**(14)**
Profit for the financial year		2,471	2,214
Total income and expense recognised in the year		**2,461**	**2,200**

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1 Corporate Information

HT - Hrvatske telekomunikacije d.d. ("HT" d.d., "T-HT" or the "Company") is a joint stock company whose majority shareholder is Deutsche Telekom AG (51%).

The registered office address of the Company is Savska cesta 32, Zagreb, Croatia.

The total number of employees of the Group as at 31 December 2007 was 6,724 (2006: 7,498).

The principal activities of the Group are described in Note 4.

The consolidated financial statements of HT - Hrvatske telekomunikacije d.d. for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Management Board on 18 February 2008. These financial statements are subject to approval of the Supervisory Board as required by the Croatian Company Act.

2.1. Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, except for investments held for trading and available-for-sale stated at fair value (Note 16), as disclosed in the accounting policies hereafter.
The Group's consolidated financial statements are presented Croatian Kuna (HRK) which is the Group's functional currency. All amounts disclosed in the financial statements are stated in millions of HRK if not otherwise stated. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2. Changes in Accounting Policies

The Group has adopted the following new and amended IFRS & IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

IFRS 7 Financial Instruments: Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 29 f).

IFRIC 8 Scope of IFRS 2
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are

issued for consideration which appears to be less than fair value. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment
The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.
Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group in periods beginning on or after 1 January 2008 or later periods. The Group has not early adopted any of these standards or interpretations and will adopt them at their effective date, as follows:

IFRIC 13 Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008).
IFRIC 13 Customer Loyalty Programmes requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group operates such scheme and currently recognizes the provision for customer loyalty program through expenses. Adoption of the IFRIC 13 will result in both the change of the presentation in the income statement and balance sheet and the revaluation of the related balance sheet item at the fair value of award credits granted.

IFRS 8 Operating Segments (effective 1 January 2009)
This standard will have impact only on presentation and disclosures in financial statements in respect of operating segments.

IFRIC 11 - IFRS 2 Group and Treasury Share Transactions (effective 1 March 2007)
It is not expected that IFRIC 11 would have any impact on the Group’s financial statements

IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
It is not expected that IFRIC 12 would have any impact on the Group’s financial statements

IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008)
It is not expected that IFRIC 14 would have any impact on the Group’s financial statements

IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
It is not expected that IAS 23 Amendment would have any impact on the Group’s financial statements
The Group is analysing potential impact of the following recently published but not yet effective standards and interpretations impact of which is not know at the moment of authorisation of these financial statements:
IAS 1 - Presentation of financial statements- revised (effective 1 January 2009)
IFRS 3 (revised 2008) - Business combinations - revised (effective 1 January 2009)
IAS 27 (amended 2008) - Amendments to IAS 27 (effective 1 January 2009)

2.3. Significant Accounting Judgments, Estimates and Assumptions
The preparation of consolidated financial statements required management to make certain estimates and assumptions which impact the carrying values of the Group’s assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses

for the period then ended. Estimates are used for, but not limited to: depreciable lives and residual values of property, plant and equipment and intangible assets, impairment assessments, allowances for inventories and doubtful debts and provisions for employee benefits, and legal claims. More details on accounting policies for these estimates are provided in respective sections of this note as well as in respective notes to the financial statements. Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgement and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Group's operating environment changes. Actual results may differ from those estimates.

Impairment of Non-financial Assets and Ducts Issue

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicator that the carrying amounts may not be recoverable. Further details including carrying values and effects on the result of the period are given in Note 10 and 11.

Accounting for Merger of HT Mostar and HT MObilne komunikacije Mostar

Significant judgments and estimates were made by the management in determination of accounting for merger of HT Mostar and HT MObilne komunikacije Mostar. Further details including carrying values and effects on the result of the period are given in Note 14.

2.4. Summary of Accounting Policies

a) Operating Profit

Operating profit is defined as the result before income taxes and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, treasury bills, interest bearing available for sale investments, dividend income from subsidiary and associates, interest expense on borrowings, gains and losses on sale of available for sale financial instruments and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

b) Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated: represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

c) Investments in Associates

In the Group's financial statements, 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.

d) Interest in joint Ventures

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as the parent company.

Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Interest in the joint venture is derecognised at the date on which the Group ceases to have joint control over the joint venture.

e) Intangible Assets

Intangible assets are measured initially at cost. Intangible assets are recognised in the event that the future economic benefits that are attributable to the assets will flow to the enterprise, and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful life. There are no intangible assets that are assessed to have indefinite useful life. The amortisation method is reviewed annually at each financial year-end.

Useful life of intangible assets is as follows:

UMTS licence	20 years
Patents and concessions	5 - 10 years
Software and other assets	5 years

f) Property, Plant and Equipment

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. In addition to directly attributable costs, the costs of internally constructed assets include proportionate indirect material and labour costs, as well as administrative expenses relating to production or the provision of services. After recognition as an asset, an item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line basis. The useful life of newly acquired assets is as follows:

Buildings	10 - 50 years
Telecomm plant and machinery	
Cables	10 - 18 years
Cable ducts and tubes	30 years
Other	2 - 18 years
Tools, vehicles, IT and office equipment	4 - 30 years

Land is not depreciated.

The useful life, depreciation method and residual values are reviewed at each financial year-end and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.
Construction-in-progress represents plant and properties under construction and is stated at cost.
Depreciation of an asset begins when it is available for use.

g) Impairment of Assets

- Financial instruments
  For financial assets carried at amortised cost, whenever it is probable that the Group 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.
- Available-for-sale financial investments
  If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.
- Intangible assets under construction and Other assets
  Intangible assets under construction are tested for impairment annually. 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 the income statement. 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.

h) Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods.
The Group performs its annual impairment test of goodwill as at 31 December.

i) 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 on the basis of weighted average cost.

j) Receivables

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

k) Foreign Currencies

Transactions denominated in foreign currencies are translated into local currency at the middle exchange rates of Croatian National Bank 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.

l) 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.

m) 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 at the balance sheet date.
The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would might arise from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets 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.
There are no formal procedures in Republic of Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the limitation period of three years. The limitation period of three years starts with the year that follows the year of submission of tax declarations, i.e. 2008 for 2007 tax liability. The counting of three years starts again with any action of tax authorities with the purpose to collect tax, interest or fines until a maximum of 6 years expires.

n) Employee Benefit Obligations

The Group provides other long-term employee benefits (see Note 20). These benefits include retirement, jubilee (length of service) and surviving dependant pensions, and 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. Gains and losses resulting from changes in actuarial assumptions are recognised as income/expense in the period in which they occur.

o) 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 activation, monthly fee, calls placed by fixed line subscribers and revenue from additional services in fixed telephony. Revenues from activation (connection fees) are recognised on a straight-line basis throughout future periods depending on an average useful life of single customer line.
Revenue from wholesale services includes interconnection services for domestic and international carriers. Revenue from mobile telephony includes revenue from installation, monthly fee 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 monthly fee, unused tariff packages and prepaid vouchers are recognised when they are realised. Before their realisation they are recorded as deferred revenues.
Revenue arrangements with multiple deliverables in mobile business (bundled product offers) are recognised in accordance with industry specific US GAAP rule EITF 00-21 as allowed by IFRS. Revenue arrangements with multiple deliverables are divided into separate units of accounting. Arrangement consideration is allocated among the separate units of accounting

based on their relative fair values. The arrangement consideration allocable to a delivered item that does not qualify as a separate unit of accounting within the arrangement is combined with the amount allocable to the other applicable undelivered item within the arrangement. Appropriate recognition of revenue is then applied to those combined deliverables as a single unit of accounting. The amount allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).
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 call number.
Revenue from dividends is recognised when the Group's right to receive the payment is established. Interest revenue is recognised as interest accrues (using the effective interest rate that is the rate that exactly discounts receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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

q) 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.

r) 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 Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group 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 Group, 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. 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.
Financial instruments are generally recognised as soon as the Group becomes a party to the contractual regulations of the financial instrument.
However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. A financial asset is derecognised when the cash is collected or the rights to receive cash from the assets have expired. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

s) Provisions
A provision is recognised when, and only when, the Group 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 Group is demonstrably committed to a termination of employment contracts, that is when the Group has a detailed formal plan for the termination which 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.

t) 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.

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

3 Segment Information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.
T-Com segment provides fixed telephony, wholesale services, internet services and data services. T-Mobile provides mobile telephony.
Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transactions between business segments. Those transactions are eliminated in consolidation.
The Group's geographical segments are based on the geographical location of its customers.
Revenue from mobile terminating calls transited through T-Com's network are disclosed as revenue from wholesale services in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.
Revenue from sale of mobile trade goods through T-Com's shops is disclosed as miscellaneous revenue in T-Com segment, while on Group level they are reclassified to revenue from mobile telephony.
Due to tourist season, higher revenues and operating profits are usually expected in the summer months for T-Mobile segment.

Business Segments

The following tables present revenue and profit and certain assets and liabilities information regarding the Group's business segments:

Year ended 31 December 2007	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
Fixed telephony	3,219	-	-	-	3,219
Wholesale services	832	-	(87)	-	745
Internet services	678	-	-	-	678
Data services	211	-	-	-	211
Mobile telephony	-	3,778	186	-	3,964
Miscellaneous	121	-	(99)	-	22
Sales to external customers	5,060	3,778	-	-	8,838
Inter-segment sales	386	458	-	(844)	-
Total revenue	5,446	4,236	-	(844)	8,838
Results					
Segment results	1,256	1,263	-	-	2,519
Net finance revenue	499	69	-	-	568
Share of profit of an associate	-	-	-	-	-
Profit before income tax	1,755	1,332	-	-	3,087
Income tax expense	(341)	(275)	-	-	(616)
Net profit for the year	1,414	1,057	-	-	2,471
As at 31 December 2007					
Assets and liabilities					
Segment assets	11,374	3,730	-	(162)	14,942
Investment in associates	2	-	-	-	2
Investment in joint venture	348	-	-	-	348
Total assets	11,724	3,730	-	(162)	15,292
Segment liabilities	1,858	1,021	-	(162)	2,717
Total liabilities	1,858	1,021	-	(162)	2,717
Other segment information					
Capital expenditure:					
Property, plant and equipment	749	278	-	-	1,027
Intangible assets	127	95	-	-	222
Depreciation	692	340	-	-	1,032
Amortisation	156	174	-	-	330
Impairment losses recognised in income statement	60	-	-	-	60
Provisions and employee benefit liabilities	259	32	-	-	291

Business Segments (continued)

Year ended 31 December 2006	T-Com HRK millions	T-Mobile HRK millions	Reclassified HRK millions	Eliminations HRK millions	Total HRK millions
Revenue					
Fixed telephony	3,558	-	-	-	3,558
Wholesale services	758	-	(93)		665
Internet services	490	-	-	-	490
Data services	209	-	-	-	209
Mobile telephony	-	3,520	188	-	3,708
Miscellaneous	101	-	(95)		6
Sales to external customers	**5,116**	**3,520**	**-**	**-**	**8,636**
Inter-segment sales	350	510	-	(860)	-
Total revenue	**5,466**	**4,030**	**-**	**(860)**	**8,636**
Results					
Segment results	1,407	1,164	-	-	2,571
Net finance revenue	157	58	-	-	215
Share of profit of an associate	1	-	-		1
Profit before income tax	**1,565**	**1,222**	**-**	**-**	**2,787**
Income tax expense	(323)	(250)	-	-	(573)
Net profit for the year	**1,242**	**972**	**-**	**-**	**2,214**
As at 31 December 2006 Assets and liabilities					
Segment assets	12,187	3,507	-	(335)	15,359
Investment in associates	99	-	-	-	99
Total assets	**12,286**	**3,507**	**-**	**(335)**	**15,458**
Segment liabilities	**2,127**	**935**	**-**	**(335)**	**2,727**
Total liabilities	**2,127**	**935**	**-**	**(335)**	**2,727**
Other segment information Capital expenditure:					
Property, plant and equipment	771	349	-	-	1,120
Intangible assets	130	175	-	-	305
Depreciation	761	349	-	-	1,110
Amortisation	135	157	-	-	292
Impairment losses recognised in income statement	66	2	-	-	68
Provisions and employee benefit liabilities	275	21	-	-	296

Revenue - by geographical area	2007 HRK millions	2006 HRK millions
Republic of Croatia	8,067	7,747
Rest of the World	771	889
	8,838	**8,636**

4 Costs of services

	2007 HRK millions	2006 HRK millions
Domestic interconnection	762	682
International interconnection	453	431
Advertising	275	296
Maintenance services	392	332
Rent	128	113
Other services	362	365
	2,372	**2,219**

5 Depreciation, Amortisation and Impairment of Non - current Assets

	2007 HRK millions	2006 HRK millions
Depreciation	1,032	1,110
Amortisation	330	292
	1,362	1,402
Impairment loss	74	68
	1,436	**1,470**

Refer to Notes 10 and 11 for further details on amortisation and depreciation expense and impairment loss.

6 Redundancy Expenses

	2007 HRK millions	2006 HRK millions
Provision at 1 January	428	557
Additions charged to the income statement	79	11
Utilisation	(276)	(140)
Provision at 31 December	231	428

Redundancy expenses and accrued liabilities of the Group include the amount of gross severance payments for employees whose employment contracts will be terminated during 2008 due to business reasons.

7 Other Costs

	2007 HRK millions	2006 HRK millions
Education and consulting	86	129
Bank charges, membership and other fees	135	129
Non income taxes and contributions	45	54
Daily allowances and other costs of business trips	23	28
Loss on disposal of fixed assets	18	18
Security	32	34
Contract workers	49	39
Provision for charges and risks (Note 22)	84	-
Other operating charges	135	166
	608	597

8 Taxation

a) Tax on Profit

	2007 HRK millions	2006 HRK millions
Current tax expense	607	559
Deferred tax expense	9	14
Taxation	616	573

b) Reconciliation of the Taxation Charge to the Income Tax Rate

	2007 HRK millions	2006 HRK millions
Profit on ordinary activities before taxation	3,087	2,787
Income tax at 20% (domestic rate)	617	557
Not taxable income:		
Dividends received and incentives	(1)	(4)
Related to provision for bad debts	(3)	(6)
Reversal of impairment of investment in joint venture	(27)	-
Other	(2)	(5)
Tax effects of expenses not deductible in determining taxable profits:		
Entertainment expenses	5	6
Provision for bad debts	7	7
Other non-deductible expenses	20	18
Taxation	616	573

Components and movements of deferred tax assets and liabilities are as follows:

	2007 HRK millions	Charge /(credit) to Income statement HRK millions	2006 HRK millions
Deferred tax asset			
Property, plant and equipment write down	26	(6)	32
Deferred revenue from connection fees	24	(5)	29
Actuarial gains and losses	10	(1)	11
Other	22	3	19
Total deferred tax assets	82	(9)	91

The deferred tax asset of the Group 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 265 million became tax deductible in the period from 2002 to 2007, and the remaining HRK 130 million will be tax deductible in future periods. The Group has recognised deferred tax assets based on revenue recognition of connection fees in previous periods when the tax on those revenues is paid, and due to applying of new accounting policy when such revenues are deferred for the period of useful life of providing services to the customers. At 31 December 2007, there was no recognised deferred tax liability (2006: nil) for taxes that would be payable on the disposal of the Group's subsidiaries, associate or joint venture, as the Group has no intention to dispose any of its subsidiaries, associate or joint ventures in the foreseeable future. The temporary differences associated with investments in subsidiaries, associate and joint venture, for which deferred tax liability has not been recognised aggregate to HRK 13 million (2006: HRK 61 million).

9 Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2007 HRK millions	2006 HRK millions
Net profit for the year attributable to ordinary equity holders of the Company	2,471	2,214
Weighted average number of ordinary shares for basic earnings per share	81,888,535	81,888,535

10 Intangible Assets

	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under Construction HRK millions	Total HRK millions
Cost					
At 1 January 2006	495	1,032	17	137	1,681
Additions	10	64	1	230	305
Acquisitions of a subsidiary	-	1	-	1	2
Transfers	47	197	5	(249)	-
Transfers from property, plant and equipment	-	-	-	42	42
Disposals	-	(2)	(1)	(59)	(62)
At 31 December 2006	552	1,292	22	102	1,968
Additions	1	23	1	197	222
Transfers	16	123	4	(143)	-
Transfers from property, plant and equipment	-	-	-	4	4
Disposals	(1)	(5)	(1)	(12)	(19)
At 31 December 2007	**568**	**1,433**	**26**	**148**	**2,175**
Accumulated amortisation					
At 1 January 2006	176	366	11	-	553
Charge for the year	68	222	2	-	292
Impairment loss	-	-	-	59	59
Disposals	-	(2)	(1)	(59)	(62)

10 Intangible Assets (continued)

	Licences and concessions	Software	Other assets	Assets under Construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 31 December 2006	244	586	12	-	842
Charge for the year	74	252	4	-	330
Impairment loss	4	-	-	12	16
Disposals	(1)	(3)	(2)	(12)	(18)
Transfers	(2)	2	-	-	-
At 31 December 2007	**319**	**837**	**14**	**-**	**1,170**
Net book value					
At 31 December 2006	308	706	10	102	1,126
At 31 December 2007	**249**	**596**	**12**	**148**	**1,005**

The intangible assets of the Group as of 31 December 2007 include the GSM and UMTS licence with the carrying value of HRK 18 million and HRK 115 million (2006: HRK 28 million and HRK 122 million), respectively. GSM and UMTS licence is amortised over a period of 10 (starting from September 1999) and 20 (starting from June 2005) years, respectively. Assets under construction primarily relates to software and the various licences for use of software.

Additions of Intangible Assets

Major additions in 2007 relate to upgrade of IPTV system software in the amount of 15 million HRK, IT software upgrade and IT services 57 million HRK, software for office use in the amount of HRK 3 million and software for accounts receivable in the amount of HRK 3 million, and right of way fees in amount 8 mil HRK.

Impairment Loss

During 2007, the Group recognised an impairment loss of intangible assets in the amount of HRK 16 million (2006: HRK 59 million) which relates to software for client relationship management due to its inapplicability for changed business processes and needs.

11 Property, Plant and Equipment

	Land and buildings	Telecomm plant and machinery	Tools, vehicles, IT and office equipment	Assets under construction	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Cost					
At 1 January 2006	**1,519**	**7,934**	**809**	**444**	**10,706**
Additions	20	553	7	540	1,120
Acquisitions of a subsidiary	-	16	5	4	25
Transfers	93	389	50	(532)	-
Transfers to intangible assets	-	-	-	(42)	(42)
Disposals	(5)	(233)	(24)	(7)	(269)
At 31 December 2006	**1,627**	**8,659**	**847**	**407**	**11,540**
Additions	22	353	35	616	1,026
Transfers	77	322	66	(465)	-
Transfers to intangible assets	-	-	-	(4)	(4)
Correction of prior year classification	-	12	-	-	12
Disposals	(3)	(89)	(45)	(3)	(140)
At 31 December 2007	**1,723**	**9,257**	**903**	**551**	**12,434**
Accumulated depreciation					
At 1 January 2006	**445**	**3,569**	**411**	**4**	**4,429**
Charge for the year	102	888	120	-	1,110
Impairment loss	-	7	2	-	9
Disposals	(1)	(191)	(57)	(3)	(252)
At 31 December 2006	**546**	**4,273**	**476**	**1**	**5,296**
Charge for the year	109	802	121	-	1,032
Impairment loss	-	54	-	3	57
Transfers	(1)	1	-	-	-
Correction of prior year classification	-	12	-	-	12
Disposals	(1)	(78)	(37)	-	(116)
At 31 December 2007	653	5,064	560	4	6,281
Net book value					
At 31 December 2006	1,081	4,386	371	406	6,244
At 31 December 2007	1,070	4,193	343	547	6,153

11 Property, Plant and Equipment (continued)

Included within assets under construction of the Group are spare parts of HRK 43 million (2006: HRK 37 million), net of a provision of HRK 3 million (2006: HRK nil).
Beginning in 2001, the Company 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 Act of 10 July 1998. The Company is still in the process of formally registering this legal title.
The Group does not have any material property, plant and equipment held for disposal, nor does it have any material idle property, plant and equipment.

Impairment Loss

During 2007, the Group recognised an impairment loss of property, plant and equipment in the amount of HRK 57 million (2006: HRK 9 million) which mainly relates to DSL equipment due to intended switch to advanced DSL technology.

Disposal of Property, Plant and Equipment

The disposal of the Group's property, plant and equipment primarily relates to the disposal of the base stations as a part of the network modernisation. As a part of preparation for EDGE and UMTS implementation, the Group adjusted the value of the base station radio equipment planned for replacement in the financial statements and wrote it down to the contracted sales price.
The total value of impairment for the assets planned to be sold is HRK 14 million, which is recorded as an expense in the accompanying income statement.

Ownership over Ducts

Although the assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company by virtue of the "Act on Separation of Croatian Post and Telecommunication" and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999, according to other Croatian legislation, part of the Company's infrastructure that may be considered as a real estate which is also known as Distributive Telecommunication Infrastructure (DTI or ducts) - does not have all the necessary documents (building, use permits etc.) and the major part is not registered in the land registry, which may be relevant to the issue of proving the ownership towards third parties. Current intrusions in the Company's ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have a material effect on the consolidated financial statements in the case that the Company will not be able to prove its ownership rights for some ducts.
The Company formed the Infrastructure Documentation & Registration department that is responsible for ensuring that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on a Company, but also on local and state authorities. Nevertheless, contracts on right of way over public areas are concluded with cities of Rijeka, Dubrovnik, Varaždin, Čakovec, Gospić, Metković and number of smaller cities and are in process of registration in the land registry. Furthermore, contracts on use of road land are concluded with Hrvatske ceste and County road managements, covering majority of network passing through road land. Therefore, situation with documentation is significantly improved.
In August 2006, the Croatian Agency for Telecommunication (HAT) made a temporary decision by which, starting from 1st October 2006, HAT will take responsibility for government and common use of ducts that are formally disputed by others when the owner of telecommunication infrastructure is not determined. Fees should be paid in by all operators into a temporary account of HAT and after legal resolution of the real owner of the ducts all cash paid in will be transferred to the owner's account. No payments or provisions have yet been made in this respect.
In connection with the offer for sale of ordinary shares the Government of Republic of Croatia (RoC), the Group and Deutsche Telekom AG have entered into a Memorandum of Understanding on how the various issues relating to the Initial Public Offering, including DTI infrastructure should be resolved. Inter-alia this provides

the underlying principles under which right of way charges and shared usage issues will be based. The parties have agreed that the arrangement with respect to the DTI aims, to the maximal possible extent and in any case materially, to

- protect the integrity of Group's balance sheet;
- recognise the investments of the Group and its legal predecessors in DTI; and,
- enable future (long-term) usage of DTI by the Group in a manner consistent with its current usage.

Such aimed solution regarding the DTI shall be consistent with EU practices and standards. Management believe that agreement as set out in the Memorandum of Understanding should bring greater clarity to the issues presently identified with respect to the use of the DTI. The provisions of the agreement need to be implemented and it is not expected that implementation will be completed until later in 2008. The Government of the Republic of Croatia has committed, within the limits of its authority, to use its reasonable efforts to provide for the appropriate legislation and regulations under the Croatian legal system as soon as practicably possible. It is possible that difficulties and challenges will arise in the process of implementing the agreement and that it may not be fully implemented as presently envisaged. The Group assessed and declared the existence of the risks thereon, including of obtaining legal opinion with respect to certain of the issues involved; however, due to the fact that these issues are very complex so far a Group has not yet been able to determine the likelihood of the possible outcome and whether it will result in any impairment of the DTI assets concerned due to inability to prove title or as a result of the additional right of way charges that may be imposed, which could have a retrospective effect. Therefore, no adjustments were made to these consolidated financial statements in respect of this matter.
The net book value of all the Group's ducts as of 31 December 2007 is HRK 856 million (2006: HRK 856 million).

12 Investment in Subsidiaries

The financial statements include the financial statements of HT - Hrvatske telekomunikacije d.d. and the following subsidiaries:

		Ownership Interest	
Entity	Country of Business	2007	2006
T-Mobile Hrvatska d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.d.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%

13 Investments in Associates

The net book value of investments in associates comprises:

	2007 Unaudited HRK millions	2006 Audited HRK millions
HT d.o.o. Mostar	-	22
HP d.o.o. Mostar	2	2
HT MObilne komunikacije d.o.o. Mostar	-	75
At 31 December	2	99

HT d.d. has associate HP d.o.o. Mostar incorporated in the Republic of Bosnia and Herzegovina, with principal activity provision of post services and ownership interest of 30.29%

See Note 14 for details on HT d.o.o. Mostar and HT MObilne komunikacije d.o.o. Mostar.

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

The net book value	2007 HRK millions	2006 HRK millions
At 1 January	99	99
Reclassification to joint venture	(97)	-
Share of profits	2	39
Dividends paid	-	(1)
Impairment of investments	(2)	(38)
At 31 December	2	99

Summarised the Group's share in aggregated financial information of associates is as follows:

Share of the associates balance sheets:	2007 HRK millions	2006 HRK millions
Current assets	22	157
Non-current assets	40	643
Current liabilities	(13)	(147)
Non-current liabilities	(18)	(157)
Net assets	31	496
Share of the associates revenue and profits:		
Revenue	17	422
Profit	2	32

The above 2007 figures are extracted from unaudited financial information, while 2006 figures are extracted from audited financial statements that contain several audit qualifications.

14 Investments in Joint Venture

The net book value of investments in associates comprises:

	2007 Unaudited HRK millions	2006 Audited HRK millions
HT d.o.o. Mostar	348	-
At 31 December	348	-

The associate HT MObilne komunikacije d.o.o. Mostar was merged with another associate Hrvatske telekomunikacije d.o.o. Mostar as of 3 January 2007. By this merger uncertainties resulting from the fact that HT Mostar held the GSM licence and HT MObilne komunikacije provided mobile GSM services were resolved.
This merger was accounted for as contribution
of a non monetary asset in these financial statements. As a result of the exchange, the gain on disposal of the investment of HT MObilne komunikacije is limited to the amount attributable to the other parties to the joint venture and is recognised in the amount of HRK 47 million in the income statement. After merging, the new ownership share of the Group in the Hrvatske telekomunikacije d.o.o. Mostar amounts to 39.10%. As a result of the exchange and the new shareholders relations the investment in Hrvatske telekomunikacije d.o.o. Mostar was reclassified to joint venture accounted for on the equity method. Also, as a result of the resolution of the above mentioned GSM licence issue and some asset ownership issues in Hrvatske telekomunikacije d.o.o. Mostar, the Group has reassessed the impairment provision and consequently an impairment provision of HRK 188 million was released to the income statement.
The recoverable amount is determined as the value in use of the investment, in particular, the Group's share of the present value of the estimated future cash flows expected to be generated by Hrvatske telekomunikacije d.o.o. Mostar using a discount rate of 7.7%.
The Group's share in Hrvatske telekomunikacije d.o.o. Mostar unaudited results for year ended 31 December 2007 is recognised in the income statement in the amount of HRK 14 million.

Share of the jointly controlled entity balance sheets:	2007 HRK millions	2006 HRK millions
Current assets	286	-
Non-current assets	607	-
Current liabilities	(122)	-
Non-current liabilities	(112)	-
Net assets	659	-
Share of the jointly controlled entity revenue and profits:		
Revenue	356	-
Profit	14	-

15 Available-for-Sale Investments

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

Issuer	Currency	Interest rate	Maturity	2007 HRK millions	2006 HRK millions
Government of Croatia	HRK	4.75%	8 February 2017	33	-
Other equity securities	HRK			10	14
				43	14

Current available-for-sale investments include the following:

Issuer	2007 HRK millions	2006 HRK millions
Unit holdings in money market funds:		
ZB Invest d.o.o.	42	97
Erste Invest d.o.o.	26	73
PBZ Invest d.o.o.	25	25
Raiffeisenbank Invest d.o.o.	-	69
	93	264
Treasury bills:		
Ministry of Finance of Republic of Croatia	-	614
	-	614
	93	878

Estimated fair value of units in money market funds and bonds as of 31 December 2007 is determined by reference to their market value at the balance sheet date offered on secondary capital market.

16 Inventories

	2007 HRK millions	2006 HRK millions
Merchandise	134	89
Inventories and spare parts	96	86
	230	175

17 Trade and other Receivables

	2007 HRK millions	2006 HRK millions
Trade receivables	1,200	1,040
Other receivables	66	95
	1,266	**1,135**

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	31-60 days	61-90 days	91-120 days	>120 days
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
2007	1,20	767	271	61	35	25	41
2006	1,04	664	235	53	31	22	35

Value adjustment is made for all outstanding receivables older than 120 days, except for receivables for international settlement for which value adjustment is made according to the collection estimate. International settlement makes up the majority of past due but not impaired receivables older than 120 days. As at 31 December 2007, trade receivables at nominal value HRK 878 million (2006: HRK 836 million) were impaired and fully provided for.

Movements in the provision for impairment of receivables were as follows:

	2007 HRK millions	2006 HRK millions
At 1 January	**836**	**725**
Charge for the year	367	831
Amounts written off	(325)	(720)
At 31 December	**878**	**836**

18 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:

	2007 HRK millions	2006 HRK millions
Cash on hand and balances with banks	161	233
Time deposits with maturity less than 3 months	3,206	1,021
Cash and cash equivalents	3,367	1,254

b) Time Deposits with Maturities more than 3 Months

Time deposits with maturities more than 3 months are accounts that bear interest from 5.25% to 6.40% and that the Group is entitled to withdraw with prior notice of 1 day. Time deposits, denominated in HRK and euro, are held with the following domestic banks:

	2007 HRK millions	2006 HRK millions
Privredna banka Zagreb d.d.	282	1,034
Zagrebačka banka d.d.	413	821
Societe Generale - Splitska banka d.d.	226	147
Hypo bank d.d.	50	-
Erste Steiermarkische Bank d.d.	855	1,075
Raiffeisenbank Austria d.d.	489	659
Hrvatska poštanska banka d.d.	218	547
	2,533	4,283

c) Currency Breakdown of Cash and Cash Equivalents and Time Deposits:

	2007 HRK millions	2006 HRK millions
HRK	5,192	4,642
EUR	681	849
USD	27	46
	5,900	5,537

19 Trade and other Payables

	2007 HRK millions	2006 HRK millions
Trade payables	1,326	1,139
Accrued liabilities	105	114
Payroll and payroll taxes	63	86
VAT and other taxes payable	5	15
Other creditors	14	29
	1,513	**1,383**

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 corporate income tax returns were submitted. Given the above, tax liabilities of the Company for the years 2004 and thereafter are open to tax review. During 2005, the tax authorities completed examining the income tax liabilities of the Company for years from 2000 to 2002 and claimed that an additional HRK 92 million of taxes and interests in respect of these years should be paid. The Company has made an appeal against this claim and an objection on Resolution to the same tax authorities and the procedure is still in progress. The Company has made a provision for the amount that is in its view, reasonable to expect to be settled in this case. No further disclosures are made as required by IAS 37 because they may prejudice the position of the Company in this dispute. Part of total amount of accrued liabilities relates to this matter.

20 Employee Benefit Obligations

Other long-term employee benefits include retirement, jubilee (length of service) and surviving dependant pensions. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service in the Group. All benefit entitlements are determined from the respective employee's monthly remuneration. Other long-term employee benefits are determined using the projected unit credit method. Gains and losses resulting from changes in actuarial assumptions are recognised as income / expense in the period in which they occur.

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

	2007 HRK millions	2006 HRK millions
Net liability, beginning of year	199	193
Net expense recognised in the income statement	24	24
Payments made under scheme	(21)	(22)
Actuarial (gains)/losses	(1)	4
Net liability, end of year	**201**	**199**

21 Accruals and Deferred Income

	2007 HRK millions	2006 HRK millions
Subscription fee	106	108
Connection fee	34	31
Other	3	13
Accruals and deferred income - non current	143	152
Connection fee	173	176
Prepaid vouchers	190	176
Other	15	24
Accruals and deferred income - current	378	376

Subscription fee is invoiced for following month, while connection fee is recognised on a straight-line basis throughout future periods depending on an average useful life of a single customer line.

22 Provisions

	2007 HRK millions	2006 HRK millions
At 1 January	97	110
Additions	84	4
Utilisation	(42)	(11)
Reversal	(3)	(6)
At 31 December	136	97

As at 31 December 2007 the Group has provided estimated amounts for several legal actions and claims that management has assessed as likely to be asserted in the future against the Group.

23 Share Capital

	2007 HRK millions	2006 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 2007.

24 Legal Reserves

Legal reserves represent reserves prescribed by the Company Act 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.

25 Reconciliation of Movements in Equity

	Subscribed share capital HRK millions	Legal reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Total HRK millions
Balance as at 1 January 2006	**8,189**	**316**	**21**	**2,818**	**11,344**
Allocation of net income	-	87	-	(87)	-
Paid advance dividends for 2005	-	-	-	(813)	(813)
Total recognised income and expense for the year	-	-	(9)	2,209	2,200
Balance as at 31 December 2006	**8,189**	**403**	**12**	**4,127**	**12,731**
Allocation of net income	-	6	-	(6)	-
Paid dividends	-	-	-	(2,617)	(2,617)
Total recognised income and expense for the year	-	-	(10)	2,471	2,461
Balance as at 31 December 2007	**8,189**	**409**	**2**	**3,975**	**12,575**

In April 2007, the General Assembly of the Company declared an dividend payment to the shareholders resulting from results of the Company for 2006 in the amount of HRK 207 million (HRK 2.53 per share) that was paid in May 2007 (2006: HRK 813 million, HRK 9.93 per share).On 6 September 2007 the General Assembly of the Company declared an extraordinary dividend payment to the shareholders in the amount 2,410 million (HRK 29.43 per share) that was paid in September 2007.

26 Commitments

a) Operating Lease Commitments

The Group has operating lease commitments in respect of buildings, equipment and cars.
Operating lease charges:

	2007 HRK millions	2006 HRK millions
Current year expense (Note 5)	128	113

Future minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

	2007 HRK millions	2006 HRK millions
Within one year	124	119
Between 2 and 5 years	445	412
Greater than 5 years	494	383

The contracts relate primarily to property leases and car leases.

b) Capital Commitments

As at 31 December 2007, the Group was committed under contractual agreements to capital expenditures as follows:

	2007 HRK millions	2006 HRK millions
Intangible assets	46	36
Property, plant and equipment	305	385
	351	**421**

27 Contingencies

a) Litigation

At the time of preparation of these consolidated financial statements, there are a number of claims outstanding against the Group. In the opinion of the management, the settlement of these cases will not have a material adverse effect on the financial position of the Group, except for certain claims for which provision was established (see Note 22) and except for claims where outcome cannot be reliably determined. VIPnet d.o.o. (a competitor) complained to the Competition Agency regarding Frame Agreements that T-HT and T-Mobile Croatia d.o.o. signed with their key and large business clients that allegedly contain anti competitive clauses.

The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Protection of Market Competition Act. The Group delivered to the Agency all requested Frame Agreements and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceedings for assessing whether the Company and T-Mobile have abused their dominant position by conclusion of the Frame Agreements. On 12 July 2007, the Competition Agency brought decision stating that HT d.d. and T-Mobile Croatia d.o.o. abused their dominant position by conclusion of these Frame agreements and that it will pass the case to the misdemeanour court for determining whether the misdemeanour occurred and, if yes, assessing the penalty. At the time of authorization of these financial statements, the Group was not informed about the initiation of the proceedings before the Misdemeanour Court. The penalty for violations of the Protection of Market Competition Act could amount up to 10% of the annual HT d.d. and T-Mobile Croatia d.o.o. turnover. A penalty based on 1% of the turnover for the relevant period would amount to HRK 90 million.

A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT - Optima Telekom d.o.o to the Croatian Telecommunications Agency in June 2006 The Agency has now referred this matter to the Ministry of Sea, Tourism, Transportation and Development to assess whether a misdemeanour has been committed. The decision of the telecommunications inspector is still pending. It should be pointed out that the penalty for violations of the Telecommunications Act could amount between 1% and 5% of the annual turnover of the T-Com business unit. A penalty based on 1% of the turnover for the relevant period would amount to HRK 50 million.

T-HT and T-Mobile Croatia d.o.o. are vigorously defending both these situations. There is no history of significant settlements in Croatia under either the Competition Act or imposed by misdemeanour courts. Due to lack of relevant practice and due to the fact that the proceedings are still in progress, the Group is not able to determine the likelihood of the possible outcome of these cases, however management believes that any settlement will be significantly less than maximum penalties outlined above.

b) Billing Interval and Consumer Act Claims

On 29 January 2004, State Inspectorate of the Republic of Croatia (hereinafter: the State Inspectorate) started an investigation on the implementation of the provisions of the Consumer Protection Act regarding a method of charging voice services. The management of the Company believes that the substance of the above mentioned investigation was transferred to the Consumer Fraud Litigation while claimants being the same. However, there has been no development on this issue since mid 2004 and Company believes that case falls under relative statute of limitations. Besides, a new Bylaw on telecommunication services was brought into force as 1 January 2005. This Bylaw requires the Company to introduce at least one tariff package that will have a billing interval of 1 second.

Immediately after the Bylaw on telecommunication services has entered into force, T-HT has introduced a new tariff system with per second billing interval. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than 1 sec that was the subject of the State Inspectorate investigation.

The Company is currently involved in legal proceedings for alleged breach of Croatian consumer law. The claimants are residential customers of the Company (as well as the consumer protection association). They contend that the Company's monthly access charges in its consumer contracts are unjust and in breach of the applicable law. The claimants are also, similarly as in the above described case of State Inspectorate investigation, contending the Company's billing interval of 60 seconds. The Company has been informed that approximately 42,000 consumers signed a collective petition in respect of this matter in 2003 and that it is possible that the Company could potentially face many thousands of additional claims from these consumers on a similar basis, although it is anticipated by the Company's legal advisors that many of these petitions would be invalid. The Company's legal advisors have assessed that the maximum exposure with respect to the 42,000 petitioners could amount to approximately HRK 150 million, including interest.

The exposure could be greater if additional consumers are able to join in the present claim, if the period in respect of which claims may be brought is extended, or if the Company is required to pay additional interest than currently envisaged. The Company had approximately 1,350,000 consumers at the time of the claim.

The Company vigorously denies the validity of these claims and intends to exercise its right of appeal against the judgement.

It has been advised that it should win on appeal. Management and T-HT's legal advisers consider that this claim is without merit and the Company considers it was charging its consumers in accordance with its Concession Agreement in force at that time, as approved by the Government, and that adverse settlement of this case is remote. Furthermore, tariffs were subsequently confirmed by the Regulator in April, 2007 without further comment.

On 12 April 2007, the County Court of Zagreb announced a judgement against the Company and in favour of the six claimants resulting in a potential settlement of HRK 12 thousand for the period claimed for and including interest to 30 June 2007. Since the judgement has been made, four members of the Consumer Association filed individual claims before Zagreb Municipal Court based on the same substance as adjudicated by the non-final Consumer Fraud Litigation judgement. Both T-HT and the State Attorney objected to these claims. The Company believes that individual claims can not even be discussed while the substance stands under appeal within Consumer Fraud Litigation. Within the litigation and after delivery of the written judgment, all of the litigants (Plaintiff - Consumer Association, Municipality State Attorney representing Republic of Croatia and the Company) have submitted an Appeal against the Court of First instance before Zagreb County Court. No adjustments have been made to these consolidated financial statements relating to these matters.

28 Balances and Transactions with Related Parties

The transactions specified in the table below primarily relate to the transactions with the companies owned by Deutsche Telekom AG (DTAG). The Group 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 year ended 31 December 2007 and 2006. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 42 million (2006: HRK 54 million).

The main transactions with related parties during 2007 and 2006 were as follows:

Related party:	Revenue 2007 HRK millions	Revenue 2006 HRK millions	Expenses 2007 HRK millions	Expenses 2006 HRK millions
T-Systems Enterprise services, Germany	29	38	9	13
HT Mostar, Bosnia and Herzegovina	30	28	54	44
T-Mobile, Germany	2	23	18	20
Others	55	68	85	49
Total international settlements	116	157	166	126
Deutsche Telekom AG, Germany	-	-	36	59
T-Systems Enterprise services, Njemačka	-	-	3	7
Others	-	1	1	16
Total intercompany services	-	1	40	82
T-Systems Enterprise services, Germany	-	-	8	15
Deutsche Telekom AG, Germany	-	-	2	-
Others	-	-	3	8
Total capital expenditures	-	-	13	23
Total related parties	116	158	219	231

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

Related party:	Receivables 2007 HRK millions	Receivables 2006 HRK millions	Payables 2007 HRK millions	Payables 2006 HRK millions
T-Systems Enterprise services, Germany	3	7	1	2
HT Mostar, Bosnia and Herzegovina	13	13	30	23
T-Mobile, Germany	4	1	40	22
Others	17	11	69	27
Total international settlements	37	32	140	74
Deutsche Telekom AG, Germany	-	-	9	29
T-Systems Enterprise services, Germany	-	-	10	9
Others	-	-	1	5
Total intercompany services	-	-	20	43
Total related parties	37	32	160	117

The Group operates in Croatia in the telecommunications market. As a result of Group's strategic position within the Croatian economy, a portion of its business is transacted with the Croatian Government, its departments and agencies and companies owned by the Croatian Government.The Group provides telecommunications services to the Government of Republic of Croatia and its ministries, on normal commercial terms and conditions, such as are no more favourable than those available to other customers. The telecommunications services provided to the Government of Republic of Croatia and its ministries do not represent a significant component of the Group's revenue.

Compensation of Key Management Personnel.
In 2007 the total compensation paid to key management personnel of the Group amounted to HRK 37 million (2006: HRK 32 million). Compensation paid to key management personnel relates to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and its subsidiaries, the Executive Board of T-Com and the executive directors of the Company, who are employed by the Group.

29 Financial Risk Management Objective and Policies

The Group is exposed to international service-based markets. As a result, it can be affected by changes in foreign exchange rates. The Group 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 Group does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit Risk

The Group has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics. The Group 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 Group does not guarantee obligations of other parties.
Group considers that its maximum exposure is reflected by the amount of debtors (see Note 18) net of provisions for impairment recognised at the balance sheet date.
Additionally, the Group is 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.
For all domestic banks with foreign ownership Company received guarantees for deposits given from mother banks which have minimum rating of BBB+.

b) Liquidity Risk

The Group 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 for the foreseeable future.
Any excess cash is invested mostly in available-for-sale investments.
Major trade payables with maturity from 91 - 120 days are related to accrued liabilities for management bonuses.

	Year ended 31 December 2007	Year ended 31 December 2006
Trade and other payables		all amounts in HRK millions
Non due	1,195	942
0-30 days	124	224
31-60 days	44	73
61 - 90 days	21	14
91 - 120 days	121	121
> 120 days	8	9
Total	1,513	1,383

	Year ended 31 December 2007	Year ended 31 December 2006
Long-term loans and other long -term liabilities		all amounts in HRK millions
On demand	-	-
< 1 year	2	7
1 to 3 years	3	1
3 to 5 years	3	2
>5 years	12	14
Total	20	24

c) Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash deposits in banks.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/decrease in base points	Effect on profit before tax HRK millions
2007		
Croatian kuna	+50	29
	-50	(29)
Euro	+50	1
	-50	(1)
2006		
Croatian kuna	+50	20
	-50	(20)
Euro	+50	1
	-50	(1)

d) Foreign Currency Risk

The Group'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. The purpose of these deposits is to hedge foreign currency and foreign currency denominated liabilities.

The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities.

	Increase/decrease in Euro rate HRK millions	Effect on profit before tax HRK millions
2007	+5%	(1)
	-5%	1
2006	+5%	-
	-5%	-

e) 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 Group's principal financial instruments not carried at fair value are trade receivables, other receivables, long-term receivables, trade and other payables.
The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms approximate their fair values.

f) Capital Management

The primary objective of the Group's capital management is to ensure that it support its business and maximise shareholder value. The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves and retained earnings.
The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

30 Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

	Carrying amount		Fair value	
	2007	2006	**2007**	2006
	HRK millions	HRK millions	**HRK millions**	HRK millions
Financial assets				
Cash and cash equivalents	3,367	1,254	3,367	1,254
Time deposits	2,533	4,283	2,533	4,283
Available-for-sale investments, non-current	43	14	43	14
Available-for-sale investments, current	93	878	93	878
Financial liabilities				
Interest-bearing loans	20	24	20	24

Market values have been used to determine the fair value of listed available-for-sale financial assets. The fair value of loans has been calculated by discounting the expected future cash flows at prevailing interest rates.
At 31 December 2007 all investments are recognised at fair value.

31 Service Concession Arrangements

The Group is party to the following concession agreements, none of which are within the scope of IFRIC 12:

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:

- Public Voice Services over a Fixed Public Telecommunications Network,
- International Telecommunications Services,
- Data Transmission Services,
- Domestic and international Leased Line Services,
- Telecommunications services open to competition in a fixed network in accordance with Article 25 of the Telecommunications Act.

The Concession Agreement was signed on 22 September 1999, with two amendments dated 30 July 2001 and 17 October 2001. After the expiry of HT d.d. exclusive rights in the fixed network on 1 January 2003, the Telecommunications Act required harmonisation of the Concession agreement with provisions of the Telecommunications Act. The harmonisation process finished in February 2007 with an Agreement of the Alignment of the Concession Agreement with the valid Telecommunications Act between the Government of the Republic of Croatia and HT d.d. and an Agreement on Enforcement of the Agreement on Alignment of the Concession Agreement entered into by the Government of the Republic of Croatia, the National regulatory authority (NRA) and HT d.d. Pursuant to the Agreement on Enforcement, on April 20, 2007 the NRA passed the following decisions granting to HT d.d. the authorisations existing under the current Telecommunications Act for the provision of telecommunications services:

1. Decision on granting the licence for the provision of public voice services in the fixed network
2. Decision on granting the licence for the provision of leased lines
3. 3. Decision on granting the licence for the leasing of telecommunications network or its parts
4. Decision on granting the licence for the provision of telecommunications services with usage of a free radio-frequency spectrum
5. Notification for the provision of transmission of, inter alia, voice, sound, data, documents, images without the use of the radio-frequency spectrum, except for public voice services
6. Decision granting approval to establish connections with telecommunications networks of other countries

These decisions confirmed the existence and validity of HT's rights and authorisations existing under the Concession Agreement for the period of 30 years from entry into the Concession Agreement. The Concession Agreement can be extended under the same conditions and may be revised upon the agreement of both parties.
The licensing fees for second and every other consecutive year of the provision of public voice services, leased lines, leasing the telecommunications network or parts thereof, Internet access services, VoIP service, telecommunications services with usage of a free radio-frequency spectrum and other telecommunications services consisting of transmission of voice, sound, data, documents, images and other provided without use of radio frequency spectrum, amount to 0,1% of the total annual revenue, i.e. all invoiced revenues from the last 12 months, accrued from the provision of services.
Fees for use of numeration and frequencies are not included in the above license fees, but are paid additionally according to amounts prescribed by the valid regulations.
The licences can be terminated or suspended in accordance with the Telecommunications Act.
Besides the above license fees, HT d.d. is obliged to pay additional fee in the amount of 0,2 % of the total annual gross revenues realised in the previous year from the provision of telecommunications services and activities, for funding of the operations of National regulatory authority for telecommunications.
Pursuant to the decision of the National regulatory authority dated 28 November 2005 HT d.d .has the obligation to provide Universal telecommunication services, as determined in Article 37 of the Telecommunications Act (Official Gazette No. 122/03, 158/03, 177/03, 60/04, 70/05).

b) Concession Agreement for Telecommunications Services with the usage of radio frequency spectrum in the global mobile network system - GSM

Pursuant to this Agreement, T-Mobile d.o.o. has the right to develop and operate telecommunications services with usage of radio frequency spectrum in the global mobile network system - GSM.

The GSM Concession Agreement lasts for 10 years starting from 16 September 1999. In such a case where future amendments of the Telecommunications Act offer a longer concession period, the Concession term shall be extended for the period envisaged in such an amendment of the Law. Upon the expiration of the period for which the Concession was granted, the Regulator shall invite new bids for granting GSM concession, if so required by the Telecommunications Act in force at that time. The main criterion for the selection, which will be applied at this bidding, shall be the previous experience in offering GSM services by existing operators.

In this way the Concessionaire will be given priority, in accordance with the Telecommunications Act. According to the Telecommunications Act in force public tender is required.

T-Mobile d.o.o. is obliged to ensure that at least 95% of the population of the Republic of Croatia will be able to access the GSM network from their regular place of residence; and ensure that the GSM network will be accessible from at least 75% of the territory of the Republic of Croatia. T-Mobile d.o.o. has to develop its GSM network in such a way that at all times the network meets certain prescribed quality parameters.

Initially T-Mobile d.o.o. was granted 60 paired GSM channels. In November and December 2007 an additional 12 paired E-GSM and 42 paired GSM/DCS-1800 channels were granted to the Company. Annex to the concession agreement, regulating the use of those additional frequencies is expected to be concluded in 2008.

In addition to the initial concession fee paid in the amount of HRK 100 million, T-Mobile d.o.o. currently pays an annual concession fee of HRK 5 million for the GSM Concession.

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

T-Mobile d.o.o. pays an annual fee of HRK 150 per one mobile radio station subscriber (excluding Prepaid users) in GSM, however the Company has the right to collect this fee from its subscribers.

The Regulator has the right to revoke the Concession under certain prescribed conditions if the Concessionaire fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Telecommunications Act or of relevant Subordinate Legislation.

c) Concession Agreement for frequencies for provision of public telecommunications services with the usage of radio frequency spectrum in third generation mobile network system UMTS

Pursuant to this Agreement, T-Mobile d.o.o. has the right to develop and use a public mobile telecommunications network and to operate public telecommunications services in the third generation system UMTS on the territory of the Republic of Croatia.

The UMTS Concession Agreement lasts for 20 years starting from 18 October 2004. The Concession may be renewed on the basis of regulations in force at that time.

T-Mobile d.o.o. is obliged to ensure basic service quality requirements and availability of telecommunications network on the basis of the following coverage - at least 25% of the citizens of the Republic of Croatia in the period of 2 years from the grant of the Concession; at least 50% of the citizens of the Republic of Croatia in the period of 5 years from the grant of the Concession.

T-Mobile d.o.o. has to develop UMTS network in such a way that at all times the network meets certain prescribed quality parameters.

T-Mobile d.o.o. has been granted 2x15 MHz in paired frequency band and 5 MHz in unpaired frequency band.

In addition to the initial concession fee paid in the amount of HRK 132 million, T-Mobile d.o.o. currently pays an annual concession fee of 1% of total revenues realised in UMTS mobile network. T-Mobile d.o.o. also has to pay the annual radiofrequency fee of HRK 5 million per one assigned frequency block of 5 MHz in UMTS network (altogether 4 blocks). The Regulator has the right to revoke the Concession under certain prescribed conditions if the Concessionaire fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Telecommunications Act or of relevant Subordinate Legislation.

32 Subsequent Events

No events or transactions have occurred since 31 December 2007 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 i n relation to the Group's affairs to require mention in a note to the financial statements.

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In addition, some key performance indicators utilized by the Company (non-IFRS measures, such as EBITDA) serve as additional indicators of the Group's operating performance and may be calculated differently by other companies operating in the sector. However such measures are not replacement for measures defined and required under IFRS. Therefore the non-IFRS measures and key performance indicators used in this document may not be directly comparable to those of the Group's competitors.

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