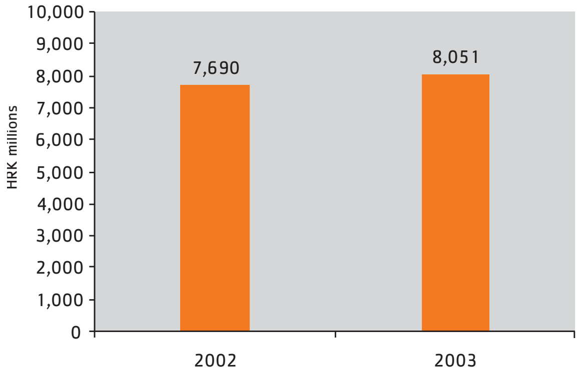
Annual Report 2003

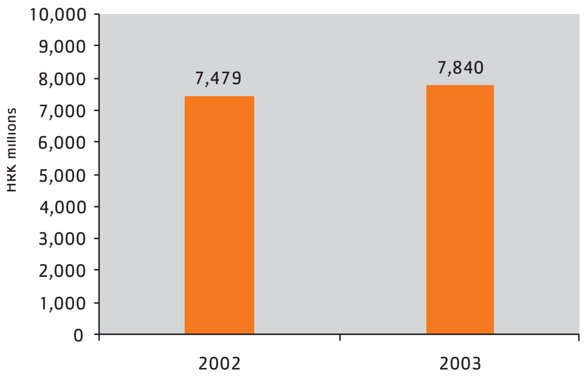
FINANCIALS HIGHLIGHTS

HRK millions	2003	2002	% change
Total operating income	8,051	7,690	4.7
Net revenues	7,840	7,479	4.8
EBIT	1,679	2,158	-22.2
Net profit for the year	1,488	1,864	-20.2
Total assets	16,606	15,257	8.8
Long term liabilities	698	726	-3.9
Total shareholders' equity	14,517	13,198	10.0
Operating margin %	21.4	28.9	-
Net income margin %	19.0	24.9	-
ROA %	9.0	12.2	-

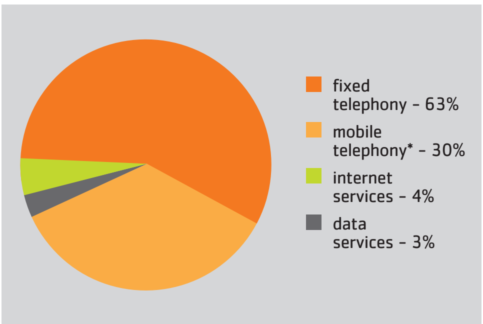
2002/2003 total operating income



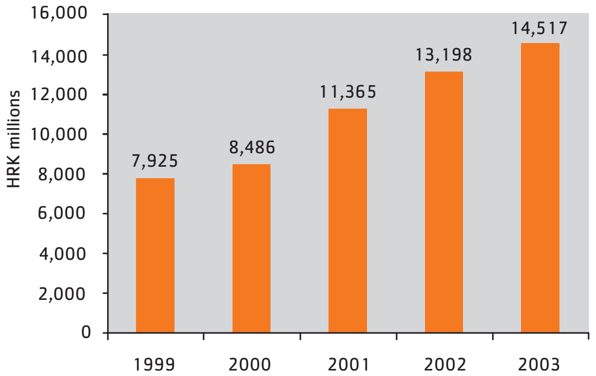
2002/2003 revenue comparison



2003 revenue composition



Total shareholders equity since 1999



* Part of interconnect revenues for traffic terminated in mobile network is included in fixed telephony revenue (carrier services)

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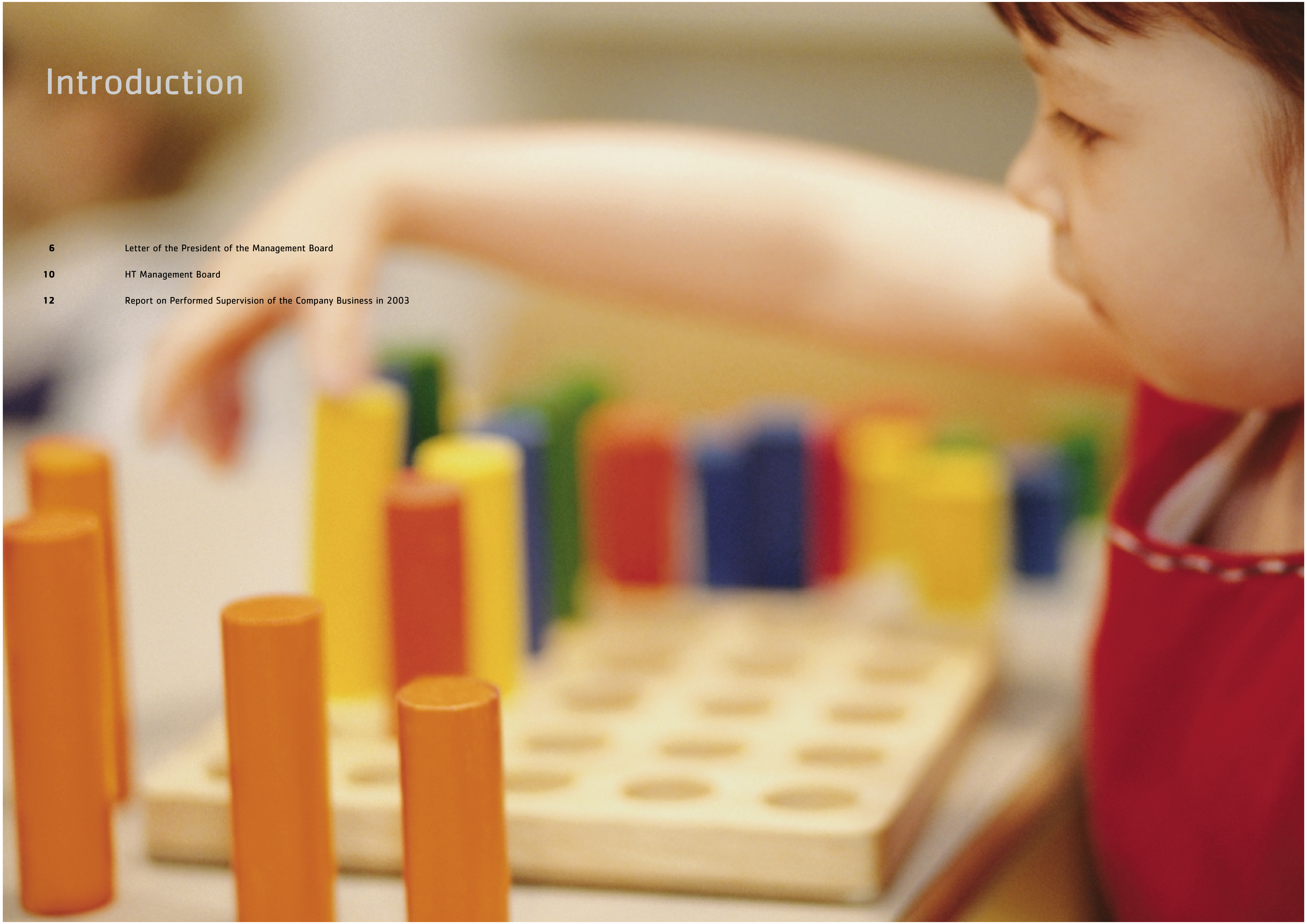


Introduction

Letter of the President of the Management Board

Dear Shareholders,

I have special pleasure in presenting the Annual Report of Hrvatski Telekom for the year 2003.

Locally, the year 2003 was characterized by macroeconomic and political stability. On a global level, we are witnessing substantial changes in the telecommunications industry that are also impacting our own market, forcing us to react in a timely manner. The year 2003 was probably the last one for HT to operate as the only fixed network operator in the market, and perhaps also the last year with only two operators in the mobile communications market. Taking everything into account, I may judge that the results in 2003 were very good, and that the preparations for the constantly increasing market competition were satisfactory.

In an environment with a very low inflation rate of approximately 1.5% and a stable HRK exchange rate, the Croatian economy showed real growth of about 5% in 2003. The change of government after the parliamentary elections in November had no significant impact on the political stability and functioning of the economy as a whole.

The global telecommunications industry, however, is undergoing radical changes. Trends like general market liberalization, the acceptance of new advanced technologies and changes in customer habits are making us evaluate the future and react right away. To this effect we have initiated several activities aimed at reducing total costs and improving HT's efficiency, and we have further focused on our core telecommunications business. We believe that it is only by the determined steps we take today that will we be able to defend the stable position of HT in the time to come. In addition to the transformation in this sense, our constant task is, of course, also the strategic growth and development of the Group.

Managing a company in such an environment and pursuing ambitious goals is a big challenge. Yet, we have not forgotten our great social responsibility either. We introduced a tariff package for customers with lower income, and we are sponsoring sport, culture, science and other socially relevant activities throughout Croatia. Here, I would like to point out the introduction of Internet access to Croatian schools, in cooperation with the Ministry of Education and Sports. The project is still ongoing; HT has donated a large number of computers to local schools in Croatia, enabling students to have free Internet access, and we have also allocated a certain number of e-mail addresses. Of course, we also act with our employees in a responsible manner. We may say that the level of social responsibility in HT is among the highest in Croatia.

As for the financial results, both the HT Group (HT) and HT d.d. (the Company) had a very successful year. HT mobilne telekomunikacije d.o.o., fully owned by Hrvatske telekomunikacije d.d., marks its first year of successful business operation as a separate company.

The Group's revenue increased by 4.8%, totaling HRK 7.8 billion. All business segments showed growth, except for fixed network telephony, as expected. Profit from the Group's operating activities is HRK 1.7 billion, while the net profit amounts to HRK 1.5 billion. HT d.d. generated revenue in the amount of HRK 5.8 billion, while net profit was HRK 0.8 billion. The Company's (and therefore also the Group's) operating results were heavily impacted by

special influences - the costs of redundancy and employee legal cases. Both the HT Group and HT d.d. have a very stable balance sheet, with a strong cash flow. Consequently, the Group shows a net profit margin of 19% and a return on equity of 10.3%. In this financial year as well, HT has made substantial investments in operations.

The fixed network telephony revenue in 2003 amounted to HRK 4.9 billion, which is a 3.1% decrease compared to the previous year. Although HT is still the only operator in the fixed network, a minor decrease was expected, especially due to the global trend of fixed to mobile substitution, the evolution of IP and the introduction of social tariff packages. Therefore, taking into account the likely appearance in the market of new fixed network operators, we can expect that all these factors will not only reduce HT's share in the fixed network market, but also result in a value reduction in the overall market of fixed network voice services.

We are particularly pleased by the strong growth in the number of ISDN and ADSL lines. We have carried out substantial preparatory work, aimed at expanding broadband access (ADSL) for accelerated development and availability in 2004. Two new tariff packages for residential customers were introduced and promoted: "Mini Halo" and "Halo plus", designed for customers with a lower income and for customers with a larger number of calls, respectively.

Driven by the further growth of mobile penetration in Croatia (which stood at 57.6% by the end of 2003) and by the increasing functionalities and numerous benefits offered, the mobile communications segment is generating splendid results: an increase in revenue of 16.8% (amounting to HRK 2.4 billion), a 12.6% increase in the number of customers, and the continued position as market leader with a 52.5% share of the total market. HTmobile is focusing on a good long-term relationship with its customers, on the modernization of its network and the continuous introduction of new services. Recently, the Government of the Republic of Croatia has given consent to the Regulator to announce a public tender for granting licenses in the GSM and UMTS networks, thus creating the preconditions for the arrival of the third operator in the mobile communications market.

The segment of Internet services is characterized by the constant introduction of new services, further strong growth both in the number of customers and in revenue, and the leading position in an extremely competitive market. HTnet covers 71.3% of the dial-up market and 36.9% of the fixed line market. Furthermore, HTnet is the leading Croatian Internet portal with an average number of 126,540 visits daily.

Data services show revenue growth of 15.7%, as a result of higher connection speed and the integration of various types of traffic.

In conclusion, I would like to point out that the business operations of HT in 2003 were very successful, and that very good financial results were achieved. We are facing big challenges which we will be able to handle, and we will know how to protect the interests of both employees and owners, of course with their support and understanding.

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

Ivica Mudrinić, President of the Management Board

HT Management Board

IVICA MUDRINIĆ

President of the Management Board and CEO

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

WOLFGANG BREUER

Member of the Management Board and Chief Operating Officer Mobile

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

WERNER HOHENADEL

Member of the Management Board and Chief Financial Officer

Born 1948 in Qierschield, Germany, graduated in electronics from the Saarbruecken School of Engineering. He gained business experience from working on various positions within Deutsche Telekom, former Deutsche Bundespost. From 2001 he served as a Senior Executive Vice President, Competence Center Controlling in Deutsche Telekom Headquarters in Bonn. In December 2002 he was appointed Member of the Management Board of HT and Chief Financial Officer. He took over the function on 1 March 2003.

BRANKA SKARAMUČA

Member of the Management Board and Chief Human Resources Officer

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

IVANA ŠOLJAN

Member of the Management Board and Chief Operating Officer Online

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

Report on Performed Supervision of the Company Business in 2003

Pursuant to Article 263, paragraph 3, and Article 300.c, paragraph 2, of the Company Law and Article 31 of the Articles of Association of HT – Hrvatske telekomunikacije d.d., the Supervisory Board of the company HT – Hrvatske telekomunikacije d.d. Zagreb, A. Hebranga 32-34, (hereinafter: "Company"), consisting, on the day of issuance of this report, of Mr. Horst Hermann, Chairman of the Supervisory Board, Ms. Ana Hrastović, Mr. Miroslav Kovačić, Mr. Zvonimir Puljić, Mr. Siegfried Pleiner, Dr. Ralph Rentschler, Mr. Michael Günther, Mr. Joachim Kregel and Mr. Antun Rimac, representative of the workers of HT d.d., Members of the Supervisory Board, submits to the General Assembly this

Report on Performed supervision of the Company Business in 2003

The content of this report includes the report on the performed supervision of Company business in 2003, the report on the examination of audited annual financial statements of the Company and consolidated annual financial statements of the HT Group, the report on the status of the Company and the HT Group, the draft decision on use of profit, as well as the results of the examination of the report on the related parties transactions.

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

The Supervisory Board has five Members representing Deutsche Telekom, three Members representing the Republic of Croatia, and one Member appointed by the Workers' Council of HT d.d. Starting from 1 March 2004, and as at the day of issuance of this report, the Management Board of the Company has four Members. These were the changes in the Management Board membership: The Supervisory Board established the termination by agreement of the term of office of Ms. Branka Skaramuča, Member of the Management Board and Chief Human Resources Officer, as of 29 February 2004.

During 2003, the Supervisory Board appointed one and dismissed three (3) Members of the Management Board. In March 2003, Mr. Werner Hohenadel was appointed Member of the Management Board and Chief Financial Officer because Mr. Ingo Richter, Member of the Management Board and Chief Financial Officer, was dismissed from this position upon his own request. In July and October 2003, two other Members of the Management Board were dismissed: Mr. Wolfgang Lister, Chief Operating Officer Fixed, (July) and Mr. Eugen Schulz, Chief Services Officer (October). By making appropriate decisions, the Supervisory Board made a temporary redistribution of activities of the dismissed Members of the Management Board to the competences of the Members of the Management Board, as follows:

- The President of the Management Board and CEO has been assigned tasks relating to the Officer's responsibilities of COO Fixed, Customer Care (CRM), Wholesale and Human Resources.
- The Management Board Member and Chief Financial Officer was assigned tasks relating to Network, Services, Procurement, Warehousing, Logistics and IT (including FoCus).
- Along with overall responsibility for the Company's business, the President of the Management Board and CEO has been authorized to delegate the execution and implementation of the assigned tasks to the respective management of the Company.

During 2003, the membership of the Supervisory Board of the Company changed as follows:
Dr. Martin Walter, who was elected Member of the Supervisory Board of HT – Hrvatske telekomunikacije d.d., left the Supervisory Board pursuant to the resignation to the membership in the Supervisory Board of HT – Hrvatske telekomunikacije d.d. In December 2003, the General Assembly elected Dr. Ralph Rentschler as Member of the Supervisory Board. Mr. Hans Albert Aukes and Mr. Herbert Mueller, pursuant to submitted resignations, terminated their membership in the Supervisory Board of HT – Hrvatske telekomunikacije d.d. In June 2003, the General Assembly elected Mr. Horst Hermann and Mr. Joachim Kregel as Members of the Supervisory Board.
On the day of issuance of this report, 26 March 2004, the General Assembly of HT d.d. recalled Mr. Ivan Milić, Mr. Milan Stojanović and Ms. Ana Hrastović from their memberships in the Supervisory Board and elected Ms. Ana Hrastović, Mr. Miroslav Kovačić and Mr. Zvonimir Puljić to be Members of the Supervisory Board and their terms of offices are to be effective as of the conclusion of today's General Assembly meeting, and therefore they are listed in the preamble of this report.

In 2003, there were six sessions of the Supervisory Board. The Supervisory Board supervised the Company business and performed other work in accordance with the Company Law, the Articles of Association of the Company, and the By-laws on the Work of the Supervisory Board of the Company.

The Supervisory Board made out-of-session decisions by sending written votes via facsimile in two occasions:

- providing prior approval to the Management Board to appoint a Member of the Management Board of HT mobilne komunikacije d.o.o.
- providing prior approval to the Management Board to undertake activities and pass decisions within the operating strategy related to the participation in the tender for awarding the license for the third program of HTV.

The Supervisory Board has the Audit Committee, whose membership was changed in 2003 so that it has 3 Members on the day of issuance of this report: Mr. Joachim Kregel, Chairman, Ms. Ana Hrastović, Member, and Mr. Siegfried Pleiner, Member.

In 2003, the Committee held two sessions and made one out-of-session decision, and discussed various issues, especially: financial statements for 2002, processes and results of the internal audits of HT, audit activities in the business area of the revoked Member of the Management Board and CSO, issues related to the new requirements in the internal control systems according to the Sarbanes-Oxley Act, supervision over the realization of audit measures and audit reports, and the internal auditing program for 2004.

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

- Performed the transfer of mobile communications business to HT mobilne komunikacije d.o.o. – milestone plan for SLA contracts between HT mobile and HT d.d.
- The course of implementation of the new Company organization and the transformation of regions
- The course of restructuring of non-core businesses – outsourcing activities and changes in the number of employees
- Strategic concept and business case for participating in the tender for awarding the license for the third TV channel
- Strategy for management awards
- Regulatory environment and new provisions in the field of telecommunications
- Introduction of «Mini Halo» and "Halo plus" tariff packages
- Project of introducing Internet into Croatian schools
- Issues of branding and re-branding
- Reform of Croatian legislation regarding the management of companies – changes in existing regulations and new regulations
- Development of opex and capex
- Annual business plan for 2004 and three-year strategic plan

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

The Management Board submitted within the legal deadlines to the Supervisory Board of the Company the annual financial statements on the Company, the consolidated annual financial statements of HT Group, and the annual report together with the audit report, the report on the status of the Company and HT Group, and the draft decision on the utilization of the profit realized by the Company during the previous business year. Said documents have been examined and are being approved by the Supervisory Board of the Company.

The Management Board submitted to the Supervisory Board the Report of the Management Board on the Related Party Transactions, made in accordance with Articles 474 and 497 of the Company Law, and in accordance with the principles of conscientious and truthful reporting.

According to the opinion of the Management Board, the total relationship of affiliated companies in the business (calendar) year 2003, realized by contractual affiliating and other undertaken legal actions, have been within the scope or ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices. In legal affairs and relationships between HT and the controlling company and affiliated companies thereof, the Management Board of HT indentified certain shortcomings, primarily in the lack of validity of accounting documents to be enclosed to the bills. Consequently, the management Board of HT didi not allow the payment of these bills until valid documents under the law are completed and provided; an example is the bill of DT AG for III Quarter of 2003, issued on the basis of TSA, which was not settled as at 31 December 2003.
As a conclusion, the Management Board states that the Company, according to the circumstances that were known in the moment of undertaking the legal affairs and actions stated in this report, received a respective counter-action, without any damage for the Company.

The Company's auditor Ernst & Young d.o.o. Zagreb, reported on the results of its audit and issued the following confirmation on the audit the above report:
"We have examined management's assertions, included in the attached Management's Report on Related Party Transactions (Related Party Report) for the period from 1 January 2003 until 31 December 2003.

The Management Board is responsible for HT – Hrvatske telekomunikacije d.d.'s ("HT") compliance with requirements of Article 497 of the Croatian Company Law. Our responsibility is to express an opinion on management's assertion about HT's compliance based on our examination. Our examination was conducted in accordance with International Standards on Auditing and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

Limitation of scope

1. We have not been able to obtain specification of the salary costs charged by Deutsche Telekom AG ("DT AG") for its employees and employees of its subsidiaries that worked in HT during 2003 under the Technical Service Agreement ("TSA") and, consequently, we have not been able to determine the appropriateness of the daily fee applied by DT, as determined in the TSA. DT AG explained that it was unable to provide this information due to requirements of German Legislation.
In our opinion, except for any adjustment that might be required in respect of the paragraph above, management's assertions provided in the Related Party Report for period from 1 January 2003 until 31 December 2003 are fairly stated, in all material respects."

The Supervisory Board has no objection to the results of the auditor's examination of the Management Board's Report on the Related Party Transactions.

After considering the Management Board's Report on the Related Party Transactions, the statement of the management Board and the results of the auditor's examination, the Supervisory Board states that the Comany, according to the circumstances that were known in the moment of undertaking the legal affairs and actions stated in the Management Board's Report on the Related Party Transactions, received a respective counter-action for each legal affair, without any damage to the Company.

The Supervisory Board confirms the mandate provided to Ernst & Young, the Company's auditor, for the examination of annual financial statements of the Company and the consolidated financial statements of the HT Group.

The Supervisory Board, after considering the audited financial statements of the Company and the consolidated financial statements of HT Group for 2003, establishes that the company acted in the year 2003 in accordance with law, the acts of the Companz and decisions of the General Assembly, and that annual financial statements were made in line with situation in the Company's ledgers and that they indicated the correct property and business status of the Company.

The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements of the Company and the consolidated financial statements of the Group. Therefore, 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 Supervisory Board has considered the report on the status of the Company and the HT Group and has no objections to the delivered report on the status of the Company and the HT Group.

The Supervisory Board holds the opinion that the proposal of the Management Board on the utilization of the profit realized by HT – Hrvatske telekomunikacije d.d. in the business year 2003 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 valid regulations of the Republic of Croatia. Therefore, the Supervisory Board gives its approval of the delivered proposal of the Management Board on the utilization of profit.

The Management Board of the Company has 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 has analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2003.

After analyzing the reports of the Management Board of the Company and monitoring the changes in the financial indicators, it was estimated that the planned business parameters were realized and that the Company's business was successful.

Aside from the financial results for the year 2003, the Supervisory Board has considered and approved the Company's business policy for the year 2004.

Pursuant to all of the above, the Supervisory Board will deliver to the General Assembly of the Company this Report on Performed Supervision of Company Business in 2003.

Zagreb, 26 March 2003

Horst Hermann

Chairman of the Supervisory Board

HT in 2003

Milestones and Main Events - Highlights

HTtel

- HTtel – new brand representing dedication to our customers
- New optional tariff packages for consumers – providing choice and the ability to adjust plans to individual needs
- ISDN lines increased by 42.1%
- The number of HT's fixed telephony channels increased by 2.2%
- Improving customer care and responsiveness
- In cooperation with HTnet, significant preparatory work undertaken to expand broadband availability and connectivity in 2004.

HTnet

- HTnet - new brand and new success
- HTnet portal - leading site in Croatia
- Dominant (dial-up) market share 71.3%
- Successful launch of e-commerce: HTnet PayWay, HTnet Shopping Center
- Further growth of HTnet dial-up users - 29.6%
- Flagship project of Internetization of Croatian Schools

HTmobile

- HTmobile - a new company in the HT group
- No. 1 in Croatia – with a total market share of 52.5%
- More than 1,300,000 loyal customers
- 63% of total GSM postpaid net adds in 2003
- GPRS, WAP, Java download, WLAN services, Mobile internet offering
- Extended product portfolio - M-Zone, MMScard, MMS info, MMS videoclip,
- Care for the Environment - approved ISO 14001 certificate
- Giving back to society - sponsoring the arts, sports, culture and science

Strategy and Organization

- Creation of new values
- Preparations for full market liberalization in fixed telephony
- Reorganization of regional presence

HT's strategy

HT has continued to develop its services and has continued to focus on the customers in all of its business segments: fixed, mobile, data and Internet. HT faced and is still facing challenge of increased competition, reflected in improved levels of customer service offered, and new values created. In January 2003 fixed telephony market has been opened to competition, and although new fixed line operator still didn't enter in the market, HT continued preparation for full market liberalization and upcoming competition in fixed telephony. That includes whole set of activities planned to achieve sustained improvement of the service. Satisfaction of our customers, their trust and loyalty is, therefore, strategic focus of all the activities of HTtel in 2003.

In all other business segments HT conducted its business in competitive environment, yet continued to hold leading market position in all market segments. HT's goal is creation of new value for its customers, shareholders and partners while in parallel remaining responsible toward its employees and society at large. Company will continue to apply leading telecommunication technologies and will continue to invest in development of its employees while maintaining stable growth and continuous efficiencies improvements. The same can also be deduced from HT's vision/mission statement: "We create the future of communications, making life better. In doing so we follow the following HT-Spirit values:

Superior Value
Passion for our customers
Innovation
Respect
Integrity
Top Excellency

HT's organization

HT's organization reflects the core businesses of the company: Fixed, Mobile and Online. HT's Group is organized in a way that Fixed line, Data and Online make up two business units, while mobile business is separated into an independent legal entity, 100% owned by HT d.d.

Corporate functions that support the businesses are organized into four corporate units: CEO corporate unit, corporate finance unit, corporate service unit and corporate human resources unit.

During 2003 HT re-organized its regional presence in Croatia with a model of four Regions coming from the previous twenty telecommunication centers.

Business Unit Fixed - HTtel

- New tariff packages
- Broadband development
- New services and redesign of the sales function

Liberalization of the market

On 1 January 2003, the process of full liberalization of the Croatian market began. During the first phase, HT's exclusive rights to provide public voice services, to operate the fixed network and to provide international services expired. Several competitors are already offering VoIP services and competition has entered the area of international telephony. Retaining customers, ensuring customer satisfaction, trust and loyalty became the strategic focus of HTtel's efforts in 2003.

Progressing toward high quality broadband fixed line access - ADSL

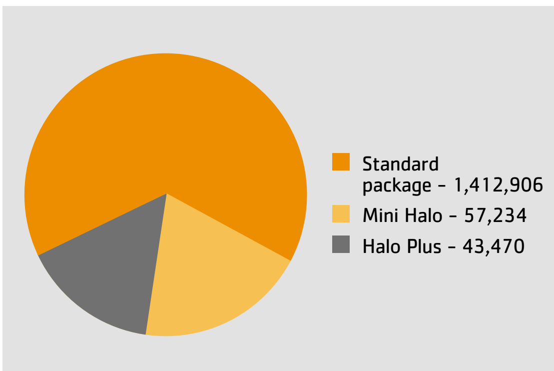
The number of HT fixed telephony channels increased by 2.2%, reaching 1,871,347 at the end of 2003. This increase is the result of growing interest in ISDN services shown by both residential and business customers.
HT migrated all key accounts from analogue to digital lines, giving these clients the benefits of complete digital communication. Demand for ISDN as a product enabling second voice line communication also surpassed expectations. The number of ISDN channels increased by 38.5%, reaching a total of 275,211 channels. ISDN channels represented 14.7% of the total fixed line channels at the end of 2003.

Furthermore, broadband roll-out commenced in 2003, and is expected to generate significant interest during 2004 and beyond. Existing HTdsl customers are already benefiting from the re-launched ADSL product, which provides a much higher quality and quantity of content. At the end of 2003 the ADSL service was already available in 8 towns and is expected to be available in most of Croatian cities by the end of 2004.
HT managed to keep the number of fixed mainlines at almost the same level as in previous year. The number of HT POTS and FGSM mainlines was 1,572,337 at the end of 2003. The total number of HT's fixed telephony mainlines decreased just for 463 mainlines if compared with the last year, driven apparently by substitution of POTS with the ISDN services being the main balancing driver behind such a small decrease, leaving the market penetration at 37.8%, similar to the last year level.

Extension of tariff package portfolio

In order to meet the demands of various user segments, HT added two new customers packages to the standard package in the fixed network service: Mini Halo and Halo Plus, thus enabling the customers to opt for the package which suits their needs most. The "Mini Halo" Package includes a social dimension; it is intended for residential customers with low level income, who use the telephone mainly for incoming calls. Featuring a lower monthly fee that includes 60 free minutes of national calls, this package is suited for persons of old age and other customers who do not use the phone frequently.

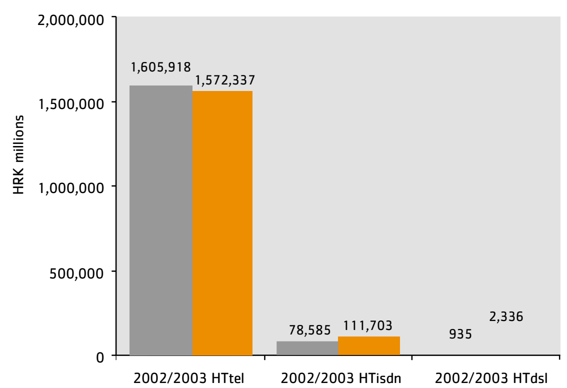
HTtel subscribers breakdown based on tariff packages



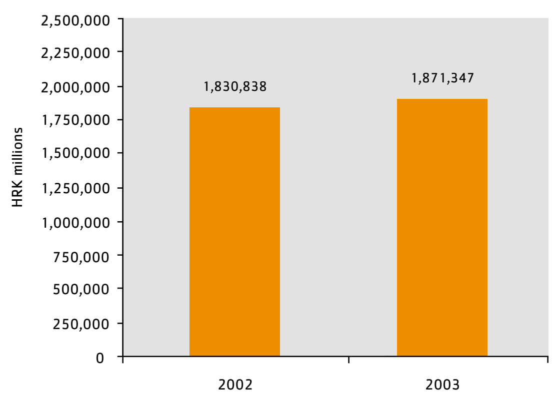
The "Halo Plus" Package is intended for customers who make calls mainly during off-peak hours, who make calls from the fixed to the mobile network, or international calls more frequently. An additional benefit of this package is free national calls on Sundays.

A significant number of subscribers opted for one of the new tariff packages. Until the end of the year 2003, a total of 100,704 subscribers replaced their standard deal with one of the new tariff packages, of which 56.8% opted for the "Mini Halo" Package.

2002/2003 HT fixed telephony channels



2002/2003 HT fixed telephony mainlines per service



Enhanced range of services and sales channels

In addition to adding new tariff packages, HTtel introduced and initiated a range of new services. In 2003, the services of national as well as international conference calls were introduced, while the ISDN "Cut Zero" promotion resulted in the sale of 16,561 new ISDN BRA connections. Several value-added services were promoted during the year (i.e. call waiting, call forwarding, the toll-free 0800 service).
All activities for the preparation of the launch of the SMS service in the fixed network were completed. HT centers, as our main sales channel, were also promoted through a variety of campaigns (ISDN days in HT centers, Easter and XMAS offers of terminal equipment, advertising of products/services in HT centers).

HTtel also restructured its sales function and adopted a proactive sales approach. In order to improve its responsiveness to the needs of each customer segment - key accounts, business sales and residential sales – separate dedicated departments were established. The principle of customer retention based on long-term frame contracts continued to be successfully implemented.
The multi-channel concept was employed for the reorganization of the current retail landscape. In addition to HT Centers - ambassadors of the HT brand - which provide high end interface for residential customers, SOHOs and SMEs (C), the HT partner concept (indirect sales channel) was introduced. As Croatia is characterized by significant differences in economic development and customer demand in regional areas, HT began to restructure its HT Centers and to refocus their activities. A total of 37 Centers exhibiting low efficiency were closed. To ensure geographic coverage and to improve the flexibility of market presence, an alternative was found in the HT partner concept (indirect sales channel). HT Partners act as customer information centers, accepting requests for HT basic services, selling simple (plug & play) telecommunication equipment, and supporting special offers/promotional activities.

Dynamics of Improving Customer Care

HT's retail strategy, which has customer satisfaction as its cornerstone, aims simultaneously to achieve the goals of reducing costs and improving customer satisfaction. Focus on the customer, and an improvement in the quality of customer care, has also benefited from the formation of a call center in Zagreb, covering the Northern and Western regions, and from one established in Osijek, covering the Eastern and Southern regions. Service is a key driver of customer satisfaction, and as a result of the described initiatives there was sustained improvement in several areas.

Continuous infrastructure development

While HTtel continued to develop its infrastructure through upgrades and improvements, especially those related to the introduction of ADSL, increased procurement efficiencies and strict cost controls yielded additional savings for HTtel.

Data business overview

Growth in data services was driven by the transition from unmanaged to managed leased lines and migration to a higher connection speed thanks to the increase of IT systems and the integration of traffic types (data, voice video). For these reasons, data revenues increased by 15.7% over revenues in 2002 following increased demand from business customers for higher bandwidths. The number of unmanaged leased lines decreased to 7,543 (from 7,998 in 2002), while the number of managed leased lines increased by 25.1% in comparison to 2002.

Recent technical developments and ongoing infrastructure expansion have been undertaken to expand the portfolio of HTtel services, leading to the introducing of innovative products and to the adjustment to regulatory requirements. Examples of these services and products include selective calling line identification, anonymous call rejection, call forwarding rejection, and a pre-paid service in fixed telephony.

During 2003 operational support systems were deployed, local switches upgraded, the existing DSLAM platform extended, and the roll-out of the new IP-based ADSL platform initiated. In addition, HTtel embarked on centralizing its monitoring processes, as well as the management and maintenance of the fixed network and its services, with the purpose of providing higher efficiency and lower costs.

In the area of logistics, major projects were undertaken in order to improve cost management efficiency, particularly in the area of real estate management and the reorganization of warehouses.

Business Unit Online - HTnet

- New brand introduced
- Content development
- Substantial investments in security

Strengthening leading market position

Although contesting with 12 competitors in a market liberalized since 1996, HTnet succeeded in further strengthening its leading market position while simultaneously achieving significant digit revenue growth.

The number of dial-up users of HTnet increased by 29.6% in comparison with 2002, reaching 479,422 users. HTnet holds 71.3% of the dial-up market (based on the number of minutes spent online). In total, dial-up customers generated 2.63 billion minutes of on-line traffic during 2003.
In addition, the number of fixed line subscribers – business users, also increased from 377 to 506, which translates into a growth of 34.2%. This is mainly due to the changed relationship towards this customer segment, intensified sales activities and the reorganization of the sales force. HTnet holds 36.9% of the market share of fixed line subscribers, resulting in a significantly higher share of revenues generated by this customer segment.

New brand, new services - new users

During 2003 HTnet was established as a new brand and its attractiveness was additionally enhanced by the intensive marketing campaign of its new portal.
Following the changes, the average number of daily visits to HTnet, the leading Croatian Internet portal site, rose sharply to 126,540 visits per day, while a total of 97,713,040 pages were downloaded in 27,079,761 visits, which makes a daily average of 456,602 page downloads. Average visit to HTnet portal lasted 5'55''.

The first real time payment gateway was introduced to the Croatian market by HTnet - The Pay Way – an online authorization and payment service. This e-merchant solution executes secure authorizations and payments for all major credit cards. Since the introduction of the service, a number of vendors have signed up, and the amount of transactions completed via the service is increasing by the month.

In addition, HTnet Shopping Center – the first virtual shopping center in Croatia – was introduced (www.htnet.hr/shopping). By partnering with HTnet Shopping Center, vendors are assured visibility on the most popular Croatian portal, and benefit significantly from marketing campaigns and events promoted by HTnet.

While the available international links of HT increased by 72% in 2003 to 310 Mbps, significant growth of capacity sold to end-customers was recorded -188 Mbps sold in 2003 in comparison to 20 Mbps sold in 2002 which makes total of 316 Mbps sold internet capacity.

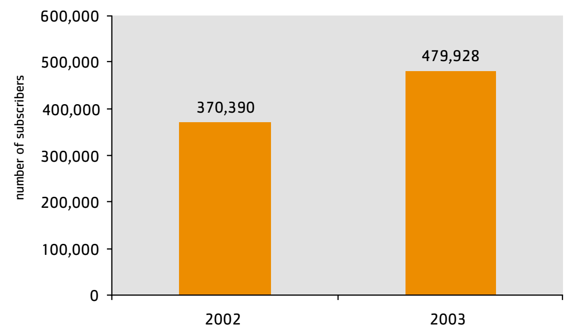
By the end of 2003, the ADSL service could be accessed from 8 towns nationwide, and has resulted in the more than doubling of ADSL customers, although the most significant increases are expected in 2004.

Investing in technical improvements and infrastructure upgrades

Investments were made by HTnet in the area of security by introducing the Intrusion Detection System, Distributed Denial of Service Attack Prevention System and Security Penetration Testing System. A high capacity stand-alone dedicated Firewall System was also implemented. These investments in security improvements will ensure the highest level of security and business information protection. In addition, Anti Virus and Spam Mail Prevention tools will reduce the load on the Mail System caused by the increase in unwanted spam mails, which is expected to result with increase in customer satisfaction and decrease in number of calls toward Customer Care.

The Core ISP platform has also been upgraded with more servers and additional storage space to accommodate the growing volume of customers.

2002/2003 HTnet subscribers



Mobile Communications – HTmobile

– Spin-off of Business Unit Mobile into a separate company
– Leading position on mobile communications market
– Becoming best in the class in customer interaction

Leading market position in a competitive market

Mobile telephony is one of the two telecommunication market segments where HT faces strong competition. Through HT's mobile arm - HTmobile LLC, and in spite of strong competition, HT was able to grow and excel.

Throughout 2003 HTmobile was focused on increasing the postpaid subscriber base, increasing the number of prepaid customers, reducing churn and retaining its customers. As a result of numerous marketing and customer retention initiatives, solid results were achieved; at the end of 2003 HTmobile served more than 250,000 postpaid subscribers and over 1,080,000 prepaid customers. By capturing an increased share of 52.2% of the GSM market, HTmobile has strengthened its leading position in the competitive Croatian environment*.

Major achievements in 2003

Pursuant to the decision of HT's Supervisory Board, the separate company HT Mobile Communications LLC started operation as an independent company on January 1st 2003. HT mobilne komunikacije d.d. are operating under the HTmobile brand, fully owned by HT – Hrvatske telekomunikacije d.d. This way, HTmobile can in the best way take advantage of the market opportunities in mobile services and be customer oriented, keeping systematically in touch with state-of-the-art technology.

Having reduced administration staff, HTmobile adjusted its organization form to be similar to the one of DTAG, while keeping synergies with HT. The integrity of the corporate governance of the HT group is maintained through the participation of HT Management Board members in the Supervisory Board of HTmobile.

Through numerous initiatives, HTmobile has gained 63% of the total GSM post-paid net adds, thus increasing HTmobile's post-paid market share to 55.2%
The prepaid GSM market share increased to 51.6% **
During 2003 mobile penetration in Croatia increased by 6 percentage points, reaching 57.6% at the end of 2003.

At the end of 2003, HTmobile had 1.3 million customers, with prepaid customers representing approximately 81.1% of the total customer base, up from 80.3% a year ago. The unusually high share of prepaid customers in the total number of Croatian mobile customers (82.5%) increases the importance of customer retention. In 2003, the average monthly churn rate was kept well below the industry average of 2%.

This achievement was partly the result of HTmobile meeting its own objectives for a measurable reduction in churn and for the development of long-term customer relationships. Additional reasons for this success were efforts to increase the loyalty of customers, the raising of the redemption rate of postpaid and prepaid loyalty programs, increasing customer satisfaction and establishing effective win-back measures.

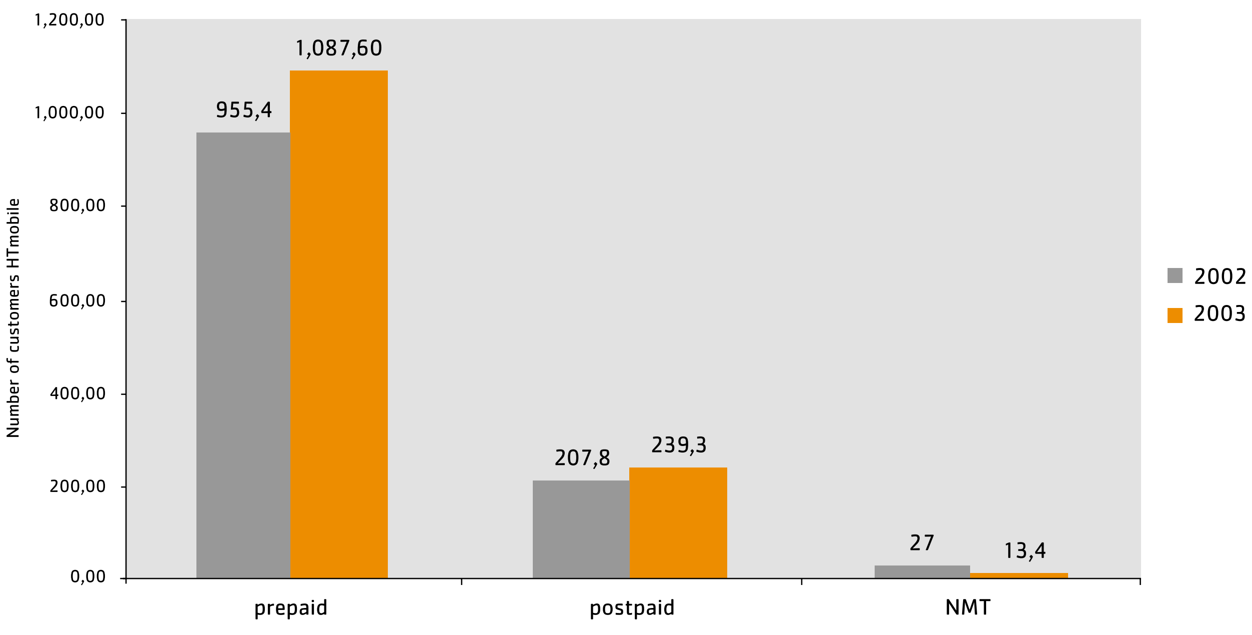
Deriving increased value from voice business and the mobile data market

HTmobile made concerted efforts in 2003 to modernize its radio access network and expand its core network capacity. These objectives were achieved through the building of 130 new base stations, adding MSC/VRL capacity for 450,000 customers, adding HLR capacity for 350,000 customers, in PPS adding an additional 155 kBHCA, IN VPN – an additional 155 kBHCA, enabling up to 100,000 GPRS subscribers to be simultaneously connected. In addition, the implementation of WLAN commenced, so that in December 2003, 4 hot-spots were already in operation.

Advanced services

Usage of voice services in 2003 was 9% higher than the previous year, while the number of sent SMS was 19% higher than in 2002. The introduction of MMS as a product took place in 2002, while the commercial phase of this product started in February 2003. During 2003 new products were added to MMS, such as MMS VideoClip, MMS via Moj portal, MMS Postcard, MMS Info.

Total number of customers within mobile telephony (in thousands)



* If inactive (group 2) customers are included in the calculations for the sake of better comparison with the 2002 report, the blended GSM market share of HTmobile would amount to 53.5% at the end of 2003.

** If inactive (group 2) customers are included in the calculations for the sake of better comparison with the 2002 report, the prepaid GSM market share of HTmobile would amount to 53.2% at the end of 2003.

Human Resources

- New regional organization
- Outsourcing of non-core business
- Personnel Round Table Meeting

In line with the overall aim of HT, the strategic focus of human resources was to support the ongoing preparation for the upcoming deregulation through the exploration of growth opportunities, the maximizing of cost efficiencies and the reaching of strategic objectives by winning, developing and retaining a high quality workforce.

The process of organizational development and improvements in business efficiencies in HT was also reflected in the Corporate Human Resources Area. The main HR activities during 2003 were related to the implementation of a new regional organization, as well as the outsourcing of non-core business.

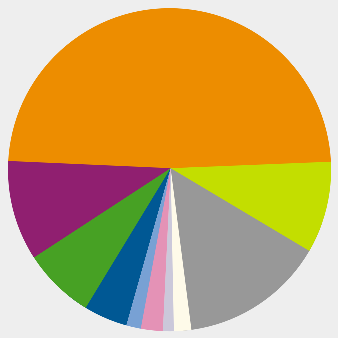
HT recognizes that its people are critical to its success and believes that a reputation as a good employer helps win and retain an excellent workforce, which enhances HT's ability to serve its customers and generate revenues. With the desire to maintain and enhance the value of the company, restructuring, internal transfers and the adjustment of the overall number of employees were required. In addition to internal transfers within the Group and the outsourcing of some activities, severance payments were made to employees willing to leave the company and whose work was no longer needed. As a result of these initiatives, by the end of 2003 HT group had 9,250 employees out of which 988 are HTmobile's employees, which translates into a decrease of 10.3 % of employees over the previous year.

With the aim of building a responsible social partnership, a new Agreement was concluded with the Workers' Council. In addition, an out-of-court settlement was reached with the majority of employees with regard to the large number of cases brought against HT that refer to gifts for children, vacation bonus, Christmas bonus, Eastern bonus and with the purpose eliminating and preventing further legal cases.

Changes in organization were also followed by numerous activities in the HR area: new systematization of work places and issuance of new working contracts accordingly.

Additionally, in line with the new business requirements and the implemented HR processes, existing internal policies and regulations were revised.

As HT is aware of the pressing need to be a service-driven company, soon to be competing in a fully liberalized market, HT placed emphasis on the training and education of staff in direct contact with customers. In order to enhance customer satisfaction, tailor-made training programs for residential sales staff and field workers were designed and conducted. A new reward system, consisting of a variable part of income related to actual performance, was set up for employees in the sales area. In order to ensure high performance and ascertain potentials at an executive level, as a basis for further development in line with business requirements, the company introduced in 2003 the "Personnel Round Table Meeting", a uniform Group-wide part of the Employee Oriented Process, which will be extended to the lower levels of management in 2004.



HT Group employees

Social and Environmental Sensitivity

Social and Environmental Sensitivity

- Net in the Schools - Internetization of Croatian schools
- Environment Management System - ISO 14001
- Support to sport and culture

Internetization

Environment care
The company's responsibility with regard to society and environment represents a value approach used by HT for its business operation, thus positively contributing to the community it is working in.

In cooperation with the Ministry of Education, HT has initiated a project of internetization of Croatian schools under the name "Net in the Schools". The total value of the project amounts to HRK 39.5 million and will be completed during the school year 2003/04.

By the end of 2003 HT donated 700 computers in 700 local elementary schools in Croatia free of charge, provided 100,000,000 minutes of free access to the Internet for elementary and secondary school students to be used from their homes, and for each of 1400 schools HT provided 10 hours free-of-charge access to the Internet per day. HT assigned 50,000 email addresses to all elementary school fifth-graders and introduced the Info service (portal) for elementary and secondary school teachers. The Ministry of Education and Sport was also provided with 9,700,000 minutes of free access for distribution to responsible persons in schools in order to further stimulate Internet usage. In addition, HTnet has sponsored various cultural and sporting events, among which the most significant were the sponsorship of the Alpe Jadran 2003 Project, the Croatian Institute for Public Health, the Ministry of European Integration's project LOGIN@EUROPE, the Pula Film Festival, the Motovun Film Festival, the Croatian Film Clubs Association. HTnet has also made donations to various homes for abandoned children.

Environment-related concerns have been particularly incorporated into HTmobile's ongoing activities and operations through the Environment Management System. In October 2003, the external independent supervisory ISO14001 audit was successfully performed, resulting in HTmobile being awarded the ISO 14001 certificate. A number of internal seminars on the HTmobile Environment Management System were held where special attention was given to electromagnetic fields and radiation. HTmobile also participated in the work of the T-mobile Health and EMF (Electromagnetic Field) Working Group as well as in the work of the Technical Committee on Electromagnetic Fields in the Human Environment at the State Office for Standardization and Metrology.

As a common effort directed towards overall benefit and greater understanding, HTmobile and VipNet founded the Mobile Communication Association of Croatia. The Association will deal with different open issues in the mobile business and will try to improve communication with the public, the government and other parties. As part of its activities, the Association will deal with questions of environmental protection, public awareness and radio system building.

HTmobile continued supporting sporting and cultural events, remaining one of the leading sponsors of the Alpine-skiing national team, the personal sponsor of Janica Kostelić as well as the sponsor of the Croatian Snowboard national team, HTmobile ACI Cup and HTmobile BBcrew – Women's Sailing Team, HTmobile Soul&Style - Open Windsurfing Championship, HTmobile Boulder Tour - Open Championship in artificial rock climbing, HTmobile Student Basketball Championship, Cro Eko.

HT Hrvatski Telekom has supported numerous sporting and cultural events and actions. HT is the general sponsor of the Croatian Olympic Committee, and the football clubs Osijek, Dinamo, Split and Rijeka. HT also sponsors the following basketball clubs: Split Croatia Osiguranje, Zadar and Zagreb. As for the area of culture, the most significant sponsorship is that of the four national theatres in Osijek, Rijeka, Varaždin and Split. HT has sponsored "Teatar u gostima", the International Festival of New Film in Split, and the International Motovun Film Festival.

Social responsibility

A special part of HT sponsorship relates to conferences: Euromoney, ConTel, SoftCOM, Mipro. HT participated in these conferences as exhibitor and participant in the expert conference sessions. It also provided technical support. As a national company, fully aware if it's public and social responsibility, HT continuously nurtures its image as a good neighbor.

Sponsorship projects enable the company to position itself over the long term and in a high-quality manner.

The biggest donations in 2003 were the following:
- SUVAG Polyclinic – financial support for the adaptation and fitting of premises, in which the post-operative rehabilitation of children with cochlea implants takes place
- Hrvatska Lutrija – financial support for the purchase of the stationary mammography unit "Mammomat 300" in cooperation with Hrvatska Lutrija
- Hrvatska Kostajnica – 3 Land Rover vehicles were donated to the city of Kostajnica
- Croatian Association of Visual Artists – financial support for the restoration of a dome
- "Friendship Knows No Boundaries" campaign – financial support for people severely affected by floods in the Czech Republic, Austria and Germany
- Union of Associations of Unemployed – Croatia – support to the organization

Management Discussion of Financial Performance

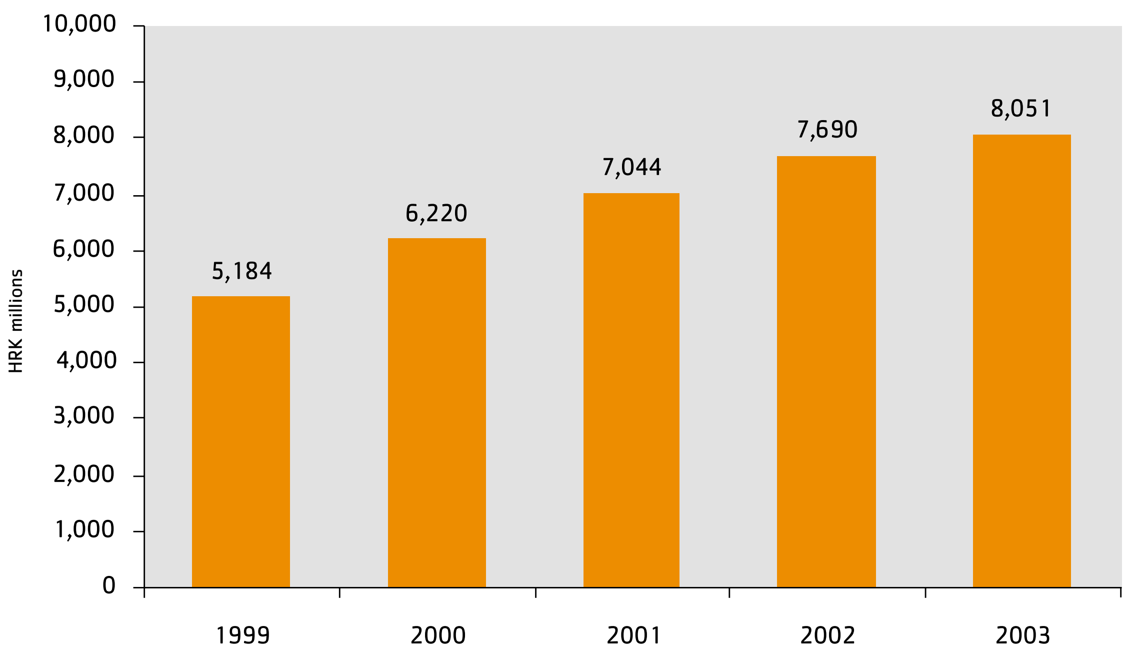
Management Discussion of Financial Performance

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

Financial results

The company's consolidated operating income for the year ended 31 December 2003 amounted to HRK 8,051 million. Consolidated operating profit stood at HRK 1,679 million, and consolidated net profit for the year amounted to HRK 1,488 million.

Total operating income since 1999



Consolidated revenues

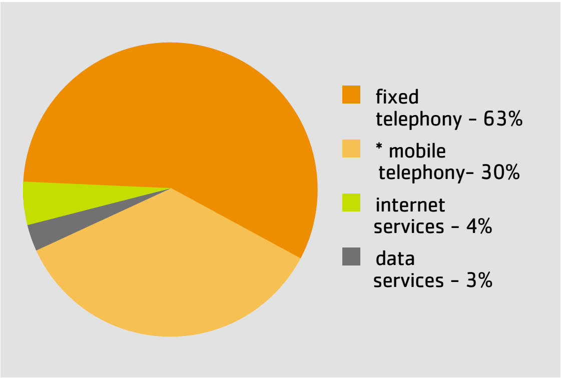
Consolidated revenues in 2003 reached HRK 7,840 million, representing an increase of 4.8% over 2002. All revenue growth was generated in market segments where HT faces competition.
The growth in group revenues was primarily driven by mobile communication and to a lesser degree by Data and Online businesses. Together these businesses accounted for 37.1% of the company's total revenue, and growth in these segments offset the small decrease in fixed telephony revenues.

Revenues from mobile telephony rose by 16.8% over 2002, and amounted to HRK 2,384 million, underpinned mainly by HTmobile's strong market position, continued customer growth (especially in the area of prepaid and VPN subscribers) and the roll-out of new services*.
In absolute terms, mobile telephony was the most significant contributor to the growth of consolidated group revenues.

The highest relative revenue growth, was achieved by HTnet - Online services. This increase in revenues reflects the growing number of customers and increased usage of core and newly added HTnet services. Revenues in 2003 amounted to HRK 280 million. Due to changes in revenue allocation HRK 96 million should be added in 2002 in order to be comparable to 2003 results. Revenues from data services increased by 15.7%, reaching HRK 243 million. This growth is primarily the result of the increasing number of lines leased.

Revenues from fixed telephony amounted to HRK 4,933 million, showing a decline of 3.1% over 2002. This decrease is mainly due to VoIP providers capturing international outgoing traffic, a decline in fixed to mobile revenues, and a decrease in analog access revenues. Revenues from national calls decreased by 1%, partly as a result of the introduction of new packages enabling off-peak savings, as well as packages with a social dimension designed for low-income residential customers.

2003 revenue composition



* Part of interconnect revenues for traffic terminated in mobile network is included in fixed telephony revenue (carrier services)

Consolidated operating costs

During 2003, the company's consolidated operating costs amounted to HRK 6,372 million, which constitutes an increase of 15.2% over the consolidated costs of 2002. More than 2/3 of this increase can be attributed to special influences – redundancies and legal cases related to staff issues.

Material costs
The cost of raw materials, consumables and merchandise fell by over 25% compared to 2002, while costs of services increased by 10.6%, mostly as a result of cost increases in domestic interconnect, advertising and maintenance services.

Staff costs
Although the educational mix of employees improved (in favor of highly educated personnel), there was a 5.3% decrease in the cost of gross wages and salaries, for the most part as a result of redundancy restructuring in this and the previous periods. In line with these reduced costs, there was a 2.7% decrease in taxes, contributions and other payroll costs. However, total staff costs increased as a consequence of special influences - redundancy programs and out-of-court settlement with employees.

While the special influence of the redundancy programs will create long-term cost and efficiency benefits for the company, this resulted in a significant and sharp increase in staff costs. Together with employee-related legal cases, these factors are chiefly responsible for over 2/3 of the increase in total consolidated operating costs in 2003.

Special influence

Redundancy
Total redundancy cost amounts to HRK 488 million.

Out of this HRK 288 million related to redundancy program initiated and/or completed in 2003.

Namely redundancy programs initiated in 2003 has involved 1,250 employees, who wanted to leave the company and whose work was no longer needed. At the end of January 2004 1,189 employees has terminated employment contract. Amounts paid for severance payments were above and beyond the amounts required by law. 846 employees wanted to leave the company and their work was no longer needed, so they terminated their contracts by 31 December 2003. 404 employees who wanted to leave the company and their work was no longer needed signed confirmation that they want to leave the company during 2003 by which their contract was terminated on 31 January 2004.

Total cost of the redundancy program initiated in 2003 and completed by 31 January 2004 amounts to HRK 288 million. Additional HRK 200 million were accrued for redundancy program that will be completed in 2004.

Out-of-court settlement
Out-of-court settlement was reached with the majority of employees with regard to the large number of cases brought against HT that refer to gifts for children, vacation bonus, Christmas bonus, Eastern bonus and with the purpose eliminating and preventing further legal cases. The total cost in 2003 for out-of-court settlement was HRK 179 million resulting with the one-off effect on decrease of net profit.

Depreciation and amortization
Depreciation and amortization and write down of fixed assets amounted to HRK 1,299 million, a slight decrease of 0.6%, or HRK 8 million, over year 2002.

Write down of current assets
The write down of current assets increased by 89.8% to HRK 186 million primarily as a result of value adjustment – write down - of the account receivables in the amount of HRK 138 million, and as a result of value adjustment – write down of the merchandise and inventories in the amount of HRK 48 million.

Other costs
There was a 19.1 % growth in other costs, essentially caused by an increase in security costs, in provisions for charges and risks, and in bank charges, memberships and other fees.

Consolidated operating profit
Although operating profit decreased by 22.2% compared to the previous year, without the special influences of redundancy and employee legal cases, operating profit would have shown an increase of 8.7%.

Consolidated net profit
In 2003 consolidated net profit amounted to HRK 1,488 million compared to HRK 1,864 million in 2002. The decrease in net profit is the result of the one-off effect of costs for legal cases (HRK 179 million) and the special influence of the redundancy program (HRK 488 million).

Taxation
The corporate income tax rate in Croatia is 20%. Total current tax expense calculated for year 2003 amounted to HRK 475 million. In accordance with the legislative requirements, HRK 499 million of income taxes was paid in advance.

The decrease in current tax expenses compared to 2002 is mainly due to the decrease in the amount of profits before tax. Deferred tax in the amount of HRK 49 million is result of difference between deferred tax liability (HRK 60 million) and deferred tax assets (HRK 11 million).

Financial condition

Consolidated balance sheet
Total consolidated assets at the end of 2003 amounted to HRK 16,606 million, representing an increase of 8.8% over 2002. Most of the increase can be attributable to current assets which grew by 41.7% to HRK 6,545. This increase was driven by an increase in financial assets as well as cash and cash equivalents.

Total consolidated liabilities amounted to HRK 2,089 million as of December 31st 2003, which represents an increase of 1.5% compared to 2002. The change in total liabilities is in line with the following changes: (i) long-term liabilities (HRK 698 million) fell by 3.9%, mainly as a result of deferred tax liability; (ii) current liabilities (HRK 1,132 million) decreased by 1,0% due to the combined effect of increased trade account payables as well as paid short term borrowings and significant decrease of income tax payables; (iii) accruals and deferred income (HRK 259 million) increased by 36.3%.

As of December 31st 2003, consolidated shareholders' equity amounted to HRK 14,517 million which showed an increase of 10.0% over December 31st 2002. As a result of the decisions made by the General Assembly of HT during 2003 and the distribution of net profit for the year 2002, the negative equity item - other reserves in the amount of HRK 796 million was eliminated. In addition, changes in retained earnings, which should be viewed in combination with the changes in revaluation reserves, increased considerably. (The release of revaluation reserves to retained earnings corresponds to the difference between depreciation based on the revalued carrying amount of property, plant and equipment on one hand, and depreciation based on the original cost of the property, plant and equipment on the other.)

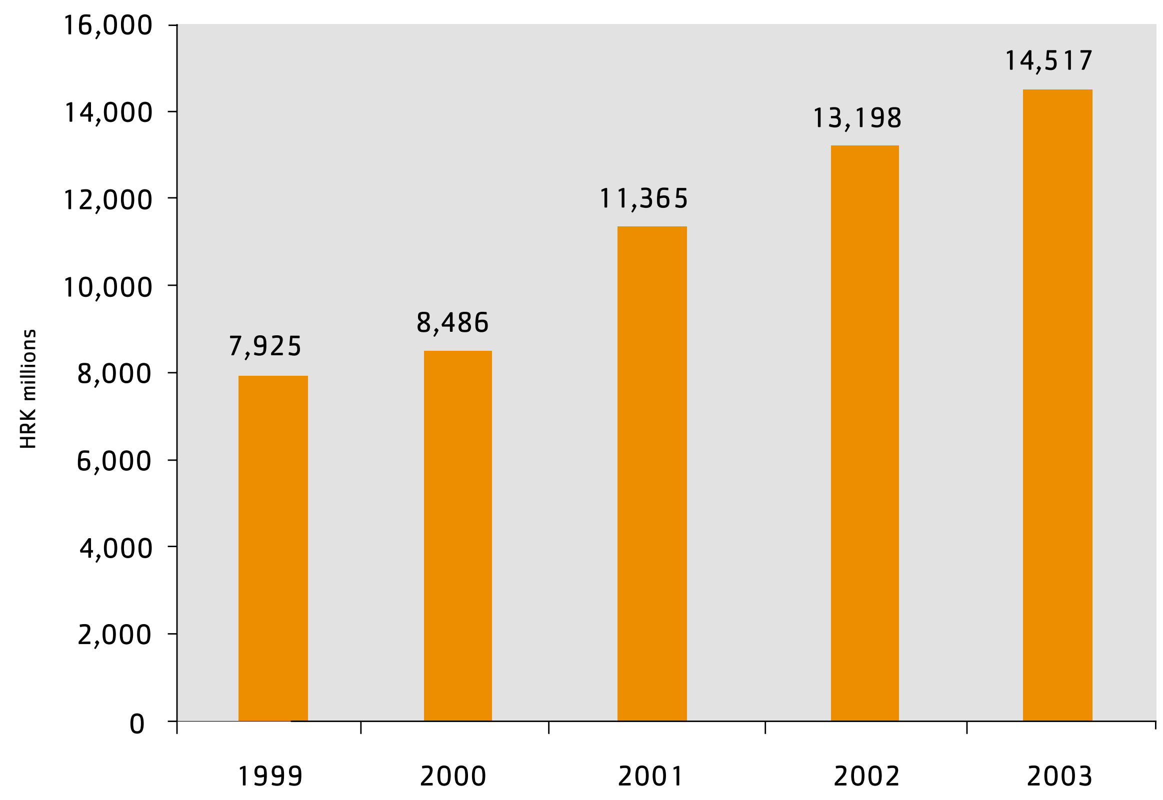
Consolidated cash flow
Net cash provided by inflows from operating activities amounted to HRK 2,670 million, has decreased by 5.6% in 2003 as compared to 2002. This primarily is result of special influences and increased outflows for taxes paid. Special influences relate to the cost of redundancy program and out-of-court settlement with employees, while increase of taxes paid, relates primarily to income taxes paid in 2003 for income realized in 2002, as well as income tax advances paid, which were determined based on operating income realized in 2002.

Net cash outflow used in investing activities amounted to 1,596 million in 2003 which represents a decreased of 11.3% as compared to 2002.

Net cash outflow from financing activities amounted to HRK 237 million in 2003 and represents 52.8% decrease as compared to the outflows from financing activities in 2002. It is important to stress that dividends paid in 2003 in the amount of HRK 187 million constituted major part of this outflow, while repayment of long term borrowings amounted to HRK 50 million which represents less than 10% of the repayments made in 2002.

Consolidated net cash and cash equivalents position of HT has improoved by HRK 857 million in 2003 alone.

Total shareholders equity since 1999



Financial statements as at 31 December 2003 and auditors' report

Corporate profile

History and incorporation

HT - Hrvatske telekomunikacije d.d. ("HT d.d." or the "Company") is a joint stock company in majority ownership of Deutsche Telekom AG ("DTAG").
It was incorporated on 28 December 1998 under the laws of the Republic of Croatia pursuant to the terms of the Law on the Separation of Croatian Posts and Telecommunications into Croatian Posts and Croatian Telecommunications (Official Gazette No. 101/98), which involved the Post and Telecommunications businesses of the former HPT - Hrvatska pošta i telekomunikacije ("HPT s p.o.") being separated and transferred into two new joint stock companies, HT - Hrvatske telekomunikacije d.d. ("HT d.d.") and HP - Hrvatska pošta d.d. ("HP d.d."), which commenced their operations on 1 January 1999.
Pursuant to the terms of the of Law on Privatisation of Hrvatske telekomunikacije d.d. (Official Gazette No. 65/99 and No. 68/01), on 5 October 1999, the Republic of Croatia sold a 35% stake in HT d.d. to DTAG and on 25 October 2001 DTAG purchased a further 16% stake in HT d.d. and thus became the majority shareholder with a 51% ownership stake. DTAG is now represented in the Supervisory Board with five members, the Republic of Croatia with three, and one member is appointed by the Workers' Council of HT d.d. During 2002, HT mobilne komunikacije d.o.o. ("HTmobile") was founded as a separate legal entity and subsidiary wholly owned by HT d.d. for providing the mobile telecommunication services. HTmobile commenced its commercial activities on 1 January 2003, until that time GSM and NMT services were provided by HT d.d.

Principal activities

The principal activities of HT d.d. and its subsidiary HT mobilne komunikacije d.o.o. (together "HT Group" or "the Group") comprise the provision of telecommunication services, and the design and construction of communication networks in the Republic of Croatia.
The Group's operations are performed through its three lines of business organized in two business units (fixed network and On-line) and one separate legal entity HT mobilne komunikacije d.o.o. supported by four corporate units (CEO corporate unit, Financial corporate unit, Human resources corporate unit and Corporate services unit). During 2003, the Group's regional presence was organized through four regions concept in opposite to 2002 when the Group was organized through twenty Telecomm centres.
In addition to providing fixed line telephony services (access and traffic through fixed telephone lines and additional fixed network services), the Group operates Internet (HTnet), data services (Leased lines, ATM, X25 and Frame relay) and analogue (NMT) and GSM mobile telephone networks called MOBITEL and CRONET, respectively.

Significant events

During 2003, the process of the mobile telecommunication business separation into HTmobile was finalized. In order to accomplish that, HT d.d. sold to HTmobile its net assets in the amount of HRK 617,846,050.18 as a part of transfer of an entire economic unit and additionally made a payment in cash, a part of unpaid capital that remained outstanding as at 31 December 2002, in the amount of HRK 60,230,603.08.
The Company's figures for 2003 and 2002 are not comparable due to the separation of the mobile business unit into a separate legal entity.

Financial review and strategy

The Company and the Group have continued to develop the range of its services and customer-orientated approach in providing fixed, mobile, data and internet services. Strengthening competitiveness in providing services, customer-orientated approach and creating new values within all segments of business represent the challenge for the Company and the Group in the next periods. In January 2003, fixed telephony market was de-regulated, although the regulatory body did not grant the concession for providing telecommunication services in the field of fixed telephony. The Company continues to prepare for the complete de-regulation of the fixed telephony market. In all other business segments the Company and the Group operate in a wholly competitive environment with a leading position in the market.
During 2003, the Group experienced continued revenue growth from the mobile and Internet services as a result of an increase in subscribers. The Group's revenues from telecommunication services for 2003 were HRK 7,840 million (2002: HRK 7,479 million), of which HRK 4,933 million relate to fixed line telephony, HRK 2,384 million to mobile telephony, and HRK 523 million to data and Internet services (2002: HRK 5,089 million, HRK 2,041 million and HRK 349 million, respectively). Profit of the Group from ordinary activities before tax for the year was HRK 1,914 million (2002: HRK 2,357 million). The net profit of the Group for the financial year amounted to HRK 1,488 million (2002: HRK 1,864 million). Long and short-term borrowings of the Group at 31 December 2003 amounted to HRK 31 million (2002: HRK 81 million). Cash and cash equivalents of the Group at 31 December 2003 amounted to HRK 2,293 million (2002: HRK 1,436 million).
The Group's and the Company's operating profit in 2003 was significantly impacted by redundancy costs and costs of legal cases with its employees in the amount of HRK 488 million and HRK 179 million, respectively (see Note 6).
The Company's and the Group's goal is to create value for its customers, shareholders and partners while being socially responsible towards its employees and society. The Company and the Group will continue to strive to be at the forefront of technology development in the telecom industry and invest in its employees' development while securing stable revenue growth and constantly improving its efficiency.

Sub-ordinate legislation passed in the second half of 2001 provides for the right of HTmobile to be awarded the UMTS concession under prescribed conditions and for a fixed concession fee.

Directors and management

Supervisory Board

The members of the Supervisory Board who served during 2003 and subsequently are as follows:

Hans-Albert Aukes	President	Until 30 June 2003
Horst Hermann	Member	From 30 June 2003
	President	From 18 July 2003
Ana Hrastović	Deputy president	From 24 October 2001
Martin Walter	Member	Until 15 December 2003
Dr. Ralph Rentschler	Member	From 15 December 2003
Michael Günther	Member	From 24 October 2001
Herbert Müller	Member	Until 30 June 2003
Joachim Kregel	Member	From 30 June 2003
Ivan Milić	Member	From 24 October 2001
Milan Stojanović	Member	From 24 October 2001
Antun Rimac	Member	From 28 May 2002
Siegfried Pleiner	Member	From 16 October 2002

Management Board

The members of the Management Board who served during 2003 and subsequently are as follows:

Ivica Mudrinić	President	From 28 December 1998
Ingo Richter	Member	Until 01 March 2003
Werner Hohenadel	Member	From 01 March 2003
Wolfgang Lister	Member	Until 18 July 2003
Eugen Schulz	Member	Until 15 October 2003
Wolfgang Breuer	Member	From 19 July 2002
Branka Skaramuča	Member	From 01 June 2002
Ivana Šoljan	Member	From 01 September 2002

Statement of responsibilities of the Management Board

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

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;

- judgments and estimates are reasonable;

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

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

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

The accompanying financial statements were approved for issuance by the Management Board on 2 March 2004.

HT - Hrvatske telekomunikacije d.d.
Hebrangova 32 - 34
10000 Zagreb
Republic of Croatia

On behalf of the Management Board,

I. Mudrinić
2 March 2004
President of the Management Board

Auditors' report

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

We have audited the accompanying financial statements of HT Đ Hrvatske telekomunikacije d.d. ("HT d.d." or the "Company") and its subsidiary (together "the Group"), as at 31 December 2003, as set out on pages 7 to 50 prepared under the accounting policies set out on pages 17 to 24. The financial statements have been prepared on the basis of the International Financial Reporting Standards issued by the International Accounting Standards Board, as required by the Croatian Accounting Law (90/92).

Respective responsibilities of the Management Board and auditors

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

Basis of opinion

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

Opinion

In our opinion, the financial statements as at 31 December 2003 give a true and fair view of the financial position of the Company and of the Group, of the results of their operations, cash flows and changes in equity for the year then ended and have been prepared in accordance with International Financial Reporting Standards and the requirements of the Croatian Accounting Law (90/92).

Slaven Đuroković
Ernst&Young d.o.o. Zagreb
Republic of Croatia
Zagreb, 2 March 2004

Consolidated HT Group income statement

For the year ended 31 December

	Notes	2003 HRK milions	2002 HRK milions
Operating income			
Revenue	3	7,840	7,479
Own costs capitalised		23	49
Other income		188	162
Total operating income		**8,051**	**7,690**
Material costs			
a) Cost of raw materials, consumables and merchandise		(432)	(578)
b) Other material costs and costs of services	4	(1,760)	(1,592)
Staff costs			
a) Gross wages and salaries		(898)	(948)
b) Taxes, contributions and other payroll costs		(321)	(330)
b) Costs of redundancy and employees legal cases	6	(667)	-
Depreciation, amortisation and write down of fixed assets	5	(1,299)	(1,307)
Write down of current assets		(186)	(98)
Other costs	7	(809)	(679)
Total operating costs		(6,372)	(5,532)
Operating profit		**1,679**	**2,158**
Financial income		195	226
Financial expense		(2)	(42)
Share of profits of associates	12	42	15
Profit before taxes from ordinary activities		**1,914**	**2,357**
Taxation	8	(426)	(493)
Net profit for the year		**1,488**	**1,864**

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

HT d.d. income statement

For the year ended 31 December

	Notes	2003 HRK milions	2002 HRK milions
Operating income:			
Revenue	3	5,790	7,479
Own costs capitalised		23	49
Other income		457	162
Total operating income		6,270	7,690
Material costs			
a) Cost of raw materials, consumables and merchandise		(250)	(578)
b) Other material costs and costs of services	4	(1,795)	(1,592)
Troškovi osoblja			
a) Gross wages and salaries		(801)	(948)
b) Taxes, contributions and other payroll costs		(282)	(330)
c) Costs of redundancy and employees legal cases	6	(667)	-
Depreciation, amortisation and write down of fixed assets	5	(982)	(1,307)
Write down of current assets		(93)	(98)
Other costs	7	(633)	(679)
Total operating costs		(5,503)	(5,532)
Operating profit		**767**	**2,158**
Financial income		222	226
Financial expense		(1)	(42)
Share of profits of associates	12	42	15
Profit before taxes from ordinary activities		**1,030**	**2,357**
Taxation	8	(226)	(493)
Net profit for the year		**804**	**1,864**

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

Consolidated HT Group balance sheet

As at 31 December 2003

	Notes	2003 HRK milions	2002 HRK milions
ASSETS			
Fixed assets			
Intangible assets	9	788	441
Property, plant and equipment	10	8,819	9,621
Investments in associates	12	98	56
Other investments	13	246	403
Long-term receivables		39	42
Deferred tax asset	8	44	55
Total fixed assets		**10,034**	**10,618**
Current assets			
Inventories	14	279	149
Debtors	15	1,321	1,334
Investments	13	776	256
Time deposits	28 b)	1,876	1,443
Cash and cash equivalents	28 a)	2,293	1,436
Total current assets		6,545	4,618
Prepayments and accrued income		**27**	**21**
TOTAL ASSETS		**16,606**	**15,257**

Consolidated HT Group balance sheet (continued)

As at 31 December 2003

	Notes	2003 HRK milions	2002 HRK milions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	19	8,189	8,189
Legal reserves	20	190	97
Other reserves	21	-	(796)
Retained earnings		2,910	1,880
Revaluation reserves	22	1,722	1,964
Fair value reserves		18	-
Net profit for the year		1,488	1,864
Total issued capital and reserves		**14,517**	**13,198**
Long-term liabilities			
Provisions	18	111	75
Employee benefit obligations	17	113	99
Deferred tax liability	8	431	491
Long-term loans		20	37
Other long-term liabilities		23	24
Total long term-liabilities		**698**	**726**
Current liabilities			
Trade payables and other current liabilities	16	1,093	888
Income tax payable		28	211
Short-term borrowings and current portion of long-term loans		11	44
Total current liabilities		**1,132**	**1,143**
Accruals and deferred income		**259**	**190**
Total liabilities		**2,089**	**2,059**
TOTAL EQUITY AND LIABILITIES		**16,606**	**15,257**

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

Signed on behalf of HT d.d. on 2 March 2004:

I. Mudrinić

W. Hohenadel

HT d.d. balance sheet

As at 31 December 2003

	Notes	2003 HRK milions	2002 HRK milions
ASSETS			
Fixed assets			
Intangible assets	9	478	329
Property, plant and equipment	10	7,277	8,335
Investment in subsidiary	11	1,478	1,478
Investments in associates	12	98	56
Other investments	13	246	403
Long-term receivables		39	42
Deferred tax asset	8	44	55
Total fixed assets		**9,660**	**10,698**
Current assets			
Inventories	14	213	149
Debtors	15	951	1.334
Receivables from subsidiary		181	-
Investments	13	776	256
Time deposits	28 b)	1,876	1,443
Cash and cash equivalents	28 a)	1,990	1,416
Total current assets		**5,987**	**4,598**
Prepayments and accrued income		**5**	**21**
TOTAL ASSETS		**15,652**	**15,317**

HT d.d. balance sheet (continued)

As at 31 December 2003

	Notes	2003 HRK milions	2002 HRK milions
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	19	8,189	8,189
Legal reserves	20	190	97
Other reserves	21	-	(796)
Retained earnings		2,910	1,880
Revaluation reserves	22	1,722	1,964
Fair value reserves		18	-
Net profit for the year		804	1,864
Total issued capital and reserves		**13,833**	**13,198**
Long-term liabilities			
Provisions	18	108	75
Employee benefit obligations	17	109	99
Deferred tax liability	8	431	491
Long-term loans		20	37
Liability to subsidiary	11	-	60
Other long-term liabilities		23	24
Total long-term liabilities		**691**	**786**
Current liabilities			
Trade payables and other current liabilities	16	832	888
Payables to subsidiary		117	-
Income tax payable		-	211
Short-term borrowings and current portion of long-term loans		7	44
Total current liabilities		**956**	**1,143**
Accruals and deferred income		**172**	**190**
Total liabilities		**1,819**	**2,119**
TOTAL EQUITY AND LIABILITIES		**15,652**	**15,317**

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

Signed on behalf of HT d.d. on 2 March 2004:

I. Mudrinić

W. Hohenadel

Consolidated HT Group cash flow statement

For the year ended 31 December 2003

	Notes	2003 HRK milions	2002 HRK milions
Operating profit		**1,679**	**2,158**
Depreciation charges		1,299	1,307
Write up of inventories		(54)	-
Decrease in inventories		29	40
Decrease / (Increase) in receivables and prepayments		51	(128)
Decrease in payables and accruals		(20)	(54)
Increase in employee benefit obligations		14	19
Interest paid		(2)	(38)
Loss on disposal of assets		18	16
Provisions - non-cash items		338	23
Exchange differences		32	9
Other non-cash items		10	(42)
Taxes paid		(724)	(480)
Net cash inflow from operating activities		**2,670**	**2,830**
Cash flows used in investing activities			
Purchase of non-current assets		(1,001)	(1,108)
Proceeds from sale of non-current assets		14	1
Purchase of investments		(2,595)	(1,611)
Proceeds from sale of investments		1,813	840
Interest received		173	79
Net cash outflow from investing activities		**(1,596)**	**(1,799)**
Cash flows from financing activities			
Repayment of long-term borrowings		(50)	(502)
Dividends paid		(187)	-
Net cash outflow from financing activities		**(237)**	**(502)**
Effect of F/X rate changes on cash and cash equivalents		20	(2)
Net increase in cash and cash equivalents		**857**	**527**
Analysis of changes in cash and cash equivalents:			
At 1 January		1,436	909
Net cash inflow		857	527
At 31 December	28 a)	2,293	1,436

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

HT d.d. cash flow statement

For the year ended 31 December 2003

	Notes	2003 HRK milions	2002 HRK milions
Operating profit		**767**	**2,158**
Depreciation charges		982	1,307
Write up of inventories		(54)	-
Decrease in inventories		90	40
Decrease / (Increase) in receivables and prepayments		264	(128)
Decrease in payables and accruals		(331)	(54)
Increase in employee benefit obligations		10	19
Interest paid		(1)	(38)
Loss on disposal of assets		8	16
Provisions - non-cash items		354	23
Exchange differences		32	9
Other non-cash items		6	(42)
Taxes paid		(552)	(480)
Net cash inflow from operating activities		**1,575**	**2,830**
Cash flows used in investing activities			
Purchase of non-current assets		(614)	(1,108)
Proceeds from sale of non-current assets		392	1
Purchase of investments		(2,524)	(1,611)
Investment in subsidiary		(60)	(20)
Proceeds from sale of investments		1,813	840
Interest received		209	79
Net cash outflow from investing activities		**(784)**	**(1,819)**
Cash flows from financing activities			
Repayment of long-term borrowings		(50)	(502)
Dividends paid		(187)	-
Net cash outflow from financing activities		**(237)**	**(502)**
Effect of F/X rate changes on cash and cash equivalents		20	(2)
Net increase in cash and cash equivalents		**574**	**507**
Analysis of changes in cash and cash equivalents:			
At 1 January		1,416	909
Net cash inflow		574	507
At 31 December	28 a)	1,990	1,416

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

Consolidated HT Group statement of changes in equity

For the year ended 31 December 2003

	Subscribed share capital HRK millions	Revaluation reserves HRK millions	Legal reserves HRK millions	Other reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Net profit for the year HRK millions	Total HRK millions
Balance as at 1 January 2002	**8,189**	**2,313**	**82**	**(796)**	**–**	**1,267**	**310**	**11,365**
Allocation of net income to retained earnings	–	–	–	–	–	310	(310)	–
Appropriation of net income to legal reserve	–	–	15	–	–	(15)	–	–
Impairment loss, net of tax effect of HRK 8 million	–	(31)	–	–	–	–	–	(31)
Depreciation transfer, net of related deferred tax of HRK 79 million	–	(318)	–	–	–	318	–	–
Profit for the financial year	–	–	–	–	–	–	1.864	1.864
Balance as at 31 December 2002	**8,189**	**1,964**	**97**	**(796)**	**–**	**1,880**	**1,864**	**13,198**
Allocation of net income	–	–	93	796	–	788	(1,677)	–
Depreciation transfer, net of related deferred tax of HRK 60 million	–	(242)	–	–	–	242	–	–
Dividends paid	–	–	–	–	–	–	(187)	(187)
Profit for the financial year	–	–	–	–	–	–	1,488	1,488
Fair value of investments	–	–	–	–	18	–	–	18
Balance as at 31 December 2003	**8,189**	**1,722**	**190**	**–**	**18**	**2,910**	**1,488**	**14,517**

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

HT d.d. statement of changes in equity

For the year ended 31 December 2003

	Subscribed share capital HRK millions	Revaluation reserves HRK millions	Legal reserves HRK millions	Other reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Net profit for the year HRK millions	Total HRK millions
Balance as at 1 January 2002	**8,189**	**2,313**	**82**	**(796)**	**–**	**1,267**	**310**	**11,365**
Allocation of net income to retained earnings	–	–	–	–	–	310	(310)	–
Appropriation of net income to legal reserve	–	–	15	–	–	(15)	–	–
Impairment loss, net of tax effect of HRK 8 million	–	(31)	–	–	–	–	–	(31)
Depreciation transfer, net of related deferred tax of HRK 79 million	–	(318)	–	–	–	318	–	–
Profit for the financial year	–	–	–	–	–	–	1,864	1,864
Balance as at 31 December 2002	**8,189**	**1,964**	**97**	**(796)**	**–**	**1,880**	**1,864**	**13,198**
Allocation of net income	–	–	93	796	–	788	(1,677)	–
Depreciation transfer, net of related deferred tax of HRK 60 million	–	(242)	–	–	–	242	–	–
Dividends paid	–	–	–	–	–	–	(187)	(187)
Profit for the financial year	–	–	–	–	–	–	804	804
Fair value of investments	–	–	–	–	18	–	–	18
Balance as at 31 December 2003	**8,189**	**1,722**	**190**	**–**	**18**	**2,910**	**804**	**13,833**

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

Notes to the financial statements

For the year ended 31 December 2003

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

HT - Hrvatske telekomunikacije d.d. ("HT d.d." or the "Company") is a joint stock company whose shareholders are Deutsche Telekom AG (51%) and the Republic of Croatia (49%).
Under the Separation Law of 10 July 1998, the Telecommunications and Post businesses of HPT s p.o. and the related assets and liabilities were transferred at net book value into two new joint stock companies, HT d.d. and HP d.d. on 1 January 1999. HPT s p.o. ceased operations from that date. The share capital of HT d.d. was registered on 28 December 1998 on the basis of the unaudited balance sheet of HPT s p.o. as at 31 December 1997. The registered office address of the Company is Andrije Hebranga 32-34, Zagreb, Croatia.
During 2002 the Management Board of HT d.d. made a decision to transfer the mobile telecommunication business to a newly established wholly owned subsidiary, HT mobilne komunikacije d.o.o. ("HTmobile"). HTmobile was registered at the Commercial Court on 6 November 2002 and commenced its commercial activities on 1 January 2003. The headquarters of HTmobile is Ulica grada Vukovara 23, Zagreb, Croatia.

The total number of employees of the Group and the Company as at 31 December 2003 was 9,250 and 8,262 (2002: 10,307 and 10,307), respectively.

2. Summary of accounting policies

A summary of the significant accounting policies of HT d.d. are set out below:

a) Basis of accounting

HT d.d. maintains its accounting records in Croatian Kuna (HRK) and in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board, effective as of 31 December 2003, and as prescribed by the Croatian Accounting Law (90/92) and in accordance with the accounting principles and practices observed by enterprises in Croatia.

b) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for:
- Property, plant and equipment carried at revalued amounts (Note h);
- Investments held for trading and available-for-sale stated at fair value (Note s);

as disclosed in the accounting policies hereafter.

c) Basis of consolidation

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

d) Measurement currency

HT d.d.'s financial statements and consolidated financial statements are prepared in HRK. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2003 was HRK 6.12 (2002: HRK 7.11) per United States Dollar (USD) and HRK 7.65 (2002: HRK 7.45) per Euro.
All amounts disclosed in the financial statements are stated in millions of HRK if not otherwise stated.

e) Investment in subsidiary

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

f) Investments in associates

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

g) Intangible fixed assets

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

Patents and concessions	5 - 10 years
Software	5 years
Leasehold improvements	5 years

h) Property, plant and equipment

Property, plant and equipment are stated at revalued amounts which consist of their fair value on the date of revaluation less accumulated depreciation and any accumulated impairment loss. Independent property revaluations are performed when the carrying amount becomes materially different from the fair values. Any increase in the recorded value of property, plant and equipment is credited to the property revaluation surplus, unless, and only to the extent that, it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case it is recognised as income.

Any decrease is first offset against an increase related to an earlier valuation in respect of the same asset and is thereafter recognised as an expense. The relevant portion of the revaluation surplus realised in respect of a previous valuation is released from the asset valuation surplus directly to retained earnings upon the disposal of the revalued asset and as the asset is used.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Depreciation is computed on a straight-line basis.

At the time of the last valuation described above, the Company made a detailed review of the remaining useful lives of its property, plant and equipment.

The revised remaining useful lives are on average as follows:

Buildings	11 years
Machinery and equipment	5 years
Furniture and vehicles	5 years

Useful lives of newly acquired assets are as follows:

Buildings	10 - 50 years
Machinery and equipment	5 - 10 years
Furniture and vehicles	5 - 10 years

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

Construction-in-progress represents plant and properties under construction and is stated at cost. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and transferred to the proper fixed assets category.

i) Impairment of assets

- **Financial instruments**

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

  Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income or treated as a revaluation decrease for property, plant and equipment that are carried at a revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

j) Inventories

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

k) Receivables

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

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

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

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

o) Employee benefit obligations
The Company provides benefits for all employees (see Note 17). The obligation and costs of one off retirement benefits including jubilee benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

p) Revenue recognition
Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and that the amount of the revenue can be measured reliably. Revenues for all services are recognised net of VAT and discounts when the service is provided.
Revenue from fixed telephony includes revenue from installation, monthly subscription and calls placed by fixed line subscribers, as well as revenue from interconnection services for domestic and international carriers.
Revenue from mobile telephony includes revenue from installation, monthly subscription and call charges for post-paid mobile customers, call charges for pre-paid mobile customers, call charges for customers of international mobile operators when roaming on the HTmobile's network, sale of mobile handsets and domestic interconnection revenues related to mobile network.
Revenue from Internet and data services includes revenue from leased lines, revenue from Internet subscription and revenue from Internet traffic to HTnet's call number. In 2003, revenue from Internet traffic to call numbers of other Internet providers are stated as revenue of Carrier Service.

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

r) Borrowings

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

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

s) Investments

Investments are classified into the following categories: held-to-maturity, trading and available-for-sale.

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

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

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

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

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

t) Provisions

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

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

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

u) Revaluation reserves

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

v) Contingencies

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

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

w) Subsequent events

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

x) Comparatives

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

3. Revenue (the Group and the Company)

a) Revenue – by business

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Revenue from fixed telephony	4,933	5,089	5,266	5,089
Revenue from mobile telephony	2,384	2,041	-	2,041
Revenue from Internet services	280	139	280	139
Revenue from data services	243	210	244	210
	7,840	**7,479**	**5,790**	**7,479**

b) Revenue – by geographical area

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Republic of Croatia	7,042	6,641	5,279	6,641
Rest of the World	798	838	511	838
	7,840	**7,479**	**5,790**	**7,479**

4. Other material costs and costs of services

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Domestic interconnect - fixed telephony	478	426	947	426
International settlements- fixed telephony	292	317	292	317
Advertising costs	250	210	93	210
Maintenance services	285	213	211	213
International settlements - GSM	106	96	-	96
International settlements - leased lines	16	29	16	29
International settlements - Internet	21	29	21	29
Domestic interconnect - GSM	68	31	-	31
Rent	72	60	56	60
Other costs	172	181	159	181
	1,760	**1,592**	**1,795**	**1,592**

5. Depreciation, amortisation and write down of fixed assets

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Depreciation	1,201	1,158	945	1,158
Amortisation	98	55	37	55
Impairment loss	–	94	–	94
	1,299	**1,307**	**982**	**1,307**

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

6. Costs of redundancy and employee legal cases (the Group and the Company)

Redundancy costs include the net amount of severance payments of HRK 63 million for 404 employees who voluntarily accepted the Company's offer to terminate employment contracts as of 31 January 2004 and HRK 155 million for 800 employees whose employment contracts will be terminated during 2004 due to business reasons. The Working Council of the Company has been informed of the intention of the Management Board regarding forthcoming redundancy and termination of employment contracts with its employees. The full amount of these costs estimated to be incurred has been recognized as expense in the current period.
The remaining amount of HRK 157 million relates to 791 employees who voluntarily accepted the Company's offer to terminate employment contracts during 2003.
The accompanying amounts of contributions and taxes are HRK 113 million.
During 2003, the Company and the Group has settled its debt for unpaid vacation bonus, Christmas bonuses, and other employee's rights for the period from 1998 to 2001 in accordance with the Collective Agreement to its employees in the amount of HRK 208 million. The related expense for 2003 was HRK 179 million.

7. Other costs (the Group and the Company)

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Education and consulting costs	216	220	171	220
Daily allowances and other costs of business trips	36	37	27	37
Travel allowances	39	38	35	38
Bank charges, membership and other fees	149	81	114	81
Loss on disposal of fixed assets	34	66	23	66
Security costs	48	21	47	21
Contract workers	16	14	9	14
Expense related to employee benefit obligations (Note 17)	42	47	40	47
Provision for charges and risks (Note 18)	65	23	62	23
Other operating charges	164	132	105	132
	809	**679**	**633**	**679**

8. Taxation

a) Tax on profit

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Current tax expense	475	548	275	548
Deferred tax benefit	(49)	(55)	(49)	(55)
Taxation	**426**	**493**	**226**	**493**

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

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Profit on ordinary activities before taxation	1,914	2,357	1,030	2,357
Income tax at 20%	383	471	206	471
Tax effects of income not taxable in determining taxable profit:				
Dividends received and incentives	(13)	(6)	(12)	(6)
Tax effects of expenses that give rise to temporary differences not recognised as deferred tax assets:				
Provision for obsolete inventories and fixed assets	18	2	18	2
Provision for bad debts	28	20	7	20
Tax effects of expenses not deductible in determining taxable profit:				
Entertainment expenses	3	2	1	2
Other non-deductible expenses	7	4	6	4
Taxation	**426**	**493**	**226**	**493**

The deferred tax benefit of HRK 49 million (2002: HRK 55 million) relates to the release of portion of the deferred tax liability recognised as a result of the revaluation of property, plant and equipment in the amount of HRK 60 million (2002: HRK 79 million) and to the release of the portion of the deferred tax asset recognised as a result of the fact that part of the write down of the property, plant and equipment was not tax deductible at the time of revaluation in the amount of HRK 11 million (2002: HRK 24 million).

The Company has not recognised any deferred tax in respect of non-deductible costs such as provisions for bad debts, obsolete stock and value adjustments of fixed assets which, in management's opinion, will not meet prescribed conditions to be treated as tax allowable expenses in future periods.

Components of deferred tax assets and liabilities are as follows:

	Asset		Liability	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Property, plant and equipment write down	44	55	-	-
Property, plant and equipment write up	-	-	(431)	(491)
At 31 December	**44**	**55**	**(431)**	**(491)**

The deferred tax asset arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in 2001. Of this amount, HRK 176 million became tax deductible in 2002 and 2003, and the remaining HRK 219 million will be tax deductible in future periods.
The deferred tax liability arises on the property, plant and equipment write up as a result of the fact that revaluation is only recorded for accounting purposes. The deferred tax liability was at recognition taken directly to equity and is released as tax benefit in the profit and loss account, as the revalued assets are depreciated.

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

	2003 HRK millions	2002 HRK millions
At 1 January	491	578
Depreciation transfer from revaluation reserves	(60)	(79)
Release related to the impairment loss recognised on previously revalued assets (Note 10)	-	(8)
At 31 December	**431**	**491**

9. Intangible assets

HT Group	Licences and concessions HRK millions	Software HRK millions	Leasehold improvements HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 31 December 2002	156	261	76	111	604
Additions	74	113	13	245	445
Transfers	2	25	9	(36)	-
Disposals	-	(5)	(2)	-	(7)
At 31 December 2003	**232**	**394**	**96**	**320**	**1.042**
Accumulated depreciation					
At 31 December 2002	52	48	63	-	163
Charge for the year	26	65	7	-	98
Disposals	-	(5)	(2)	-	(7)
At 31 December 2003	**78**	**108**	**68**	**-**	**254**
Net book value					
At 31 December 2002	104	213	13	111	441
At 31 December 2003	**154**	**286**	**28**	**320**	**788**

The intangible assets of the Group as of 31 December 2003 include the GSM licence with the carrying value of HRK 58 million (2002: HRK 67 million). This licence is amortised over a period of 10 years starting in September 1999. Assets under construction primarily relates to software and the various licences for use of software.

Intangible assets

HT d.d.	Licences and concessions HRK millions	Software HRK millions	Leasehold improvements HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 31 December 2002	140	146	76	111	473
Additions	1	54	11	245	311
Transfers	2	15	9	(26)	-
Disposals	(103)	(55)	(7)	(11)	(176)
At 31 December 2003	**40**	**160**	**89**	**319**	**608**
Accumulated depreciation					
At 31 December 2002	51	30	63	-	144
Charge for the year	7	24	5	-	36
Disposals	(35)	(11)	(4)	-	(50)
At 31 December 2003	**23**	**43**	**64**	**-**	**130**
Net book value					
At 31 December 2002	89	116	13	111	329
At 31 December 2003	**17**	**117**	**25**	**319**	**478**

Disposal of intangible assets
The disposal of the Company's intangible assets relates to sale of net assets in 2003. The cost of sold intangible assets was HRK 169 million and related accumulated amortisation was HRK 43 million, resulting in a net book value of HRK 126 million.

Fully depreciated intangible assets
The gross carrying value of fully depreciated the Company's intangible assets still in use as at 31 December 2003 was HRK 58 million (the Group: HRK 62 million) (2002: HRK 64 million).

10. Property, plant and equipment

Property, plant and equipment are stated at revalued amounts. In accordance with this policy, independent valuations will be performed periodically and professional appraisers as of 1 January 2001 performed the first valuation. The appraisal company determined the fair value of the entire amount of the Company's property, plant and equipment based on their market value as at 1 January 2001. When there was no evidence of market value because of the specialised nature of the property and equipment and because the items are rarely sold, they were valued at the depreciated replacement cost.
The Company's management estimates that there has been no significant changes in economic circumstances since this valuation was performed that would affect the fair value of its property, plant and equipment carried at revalued amounts at the balance sheet date.

HT Group	Land and buildings HRK millions	Plant and machinery HRK millions	Tools, vehicles and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost or valuation					
At 31 December 2002	6,602	4,529	284	732	12,147
Additions	90	371	19	76	556
Transfers	111	89	3	(203)	-
Disposals	(1)	(62)	(11)	(204)	(278)
At 31 December 2003	6,802	4,927	295	401	12,425
Accumulated depreciation					
At 31 December 2002	967	1.367	72	120	2,526
Charge for the year	455	711	35	-	1,201
Write-up of inventories	-	-	-	(54)	(54)
Disposals	-	(33)	(6)	(28)	(67)
At 31 December 2003	1,422	2,045	101	38	3,606
Net book value					
At 31 December 2002	5,635	3,162	212	612	9,621
At 31 December 2003	5,380	2,882	194	363	8,819

HT d.d.	Land and buildings HRK millions	Plant and machinery HRK millions	Tools, vehicles and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost or valuation					
At 31 December 2002	6,420	2,899	275	732	10,326
Additions	58	164	14	67	303
Transfers	95	56	3	(154)	-
Disposals	(25)	(157)	(12)	(365)	(559)
At 31 December 2003	6,548	2,962	280	280	10,070
Accumulated depreciation					
At 31 December 2002	958	843	70	120	1,991
Charge for the year	442	471	33	-	946
Write-up of inventories	-	-	-	(54)	(54)
Disposals	(1)	(37)	(6)	(46)	(90)
At 31 December 2003	1,399	1,277	97	20	2,793
Net book value					
At 31 December 2002	5,462	2,056	205	612	8,335
At 31 December 2003	5,149	1,685	183	260	7,277

10. Property, plant and equipment (continued)

Included within assets under construction of the Group and the Company are spare parts of HRK 92 million and HRK 59 million (2002: HRK 261 million), net of a provision of HRK 38 million and HRK 20 million (2002: HRK 119 million), respectively. During 2003, the Company and the Group reclassified part of inventory of spare parts in the amount of HRK 161 million to current assets due to its nature of use mainly for ongoing maintenance of the network.
In 2001 HT d.d. performed additional procedures which provided support for the existence of legal title to land and buildings transferred from HPT s p.o. under the Separation Law of 10 July 1998. HT d.d. is still in the process of formally registering this legal title.
The Company does not have any material property, plant and equipment held for disposal, nor does it have any material idle property, plant and equipment.

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

Impairment loss
During 2002, HT d.d. performed an impairment review of its property, plant and equipment and recognised an impairment loss related to assets used for analogue mobile telephone services (NMT services) in the amount of HRK 133 million. Of that amount, HRK 31 million (net of HRK 8 million of deferred tax) was recognised through equity as a decrease in revaluation reserves, and HRK 94 million was reported within depreciation, amortisation and write downs of fixed assets (Note 5). The recoverable amount of NMT assets was calculated based on their value in use.

Write up of inventories
During 2003, the Company started detailed analysis provisions against slow moving, obsolete or damaged inventories of investment materials and spare parts. As a result of this analysis the Company reversed the value adjustment of inventories that resulted in the increase of carrying value in the amount of HRK 54 million. This amount is included in other operating income. The Company continues this analysis in 2004 and will adjust carrying value of inventories accordingly.

Disposal of property, plant and equipment
The disposal of the Company's property, plant and equipment, during 2003 primarily relates to the sale of net assets to its subsidiary HTmobile as a part of transfer of economic entity.
The revalued cost value of sold property, plant and equipment was HRK 299 million and related accumulated depreciation was HRK 44 million, giving a net book value of HRK 255 million.

Fully depreciated tangible assets
The gross carrying value of the Company's fully depreciated property, plant and equipment still in use as at 31 December 2003 was HRK 221 million (the Group: HRK 419 million) (2002: HRK 93 million).

11. Investment in subsidiary

During 2002 the Company established a wholly owned subsidiary, HTmobile by cash contribution (HRK 80 million) and contribution in kind (HRK 1,398 million) resulting in a total investment of HRK 1,478 million. The subsidiary was established with the aim to transfer the mobile telecommunication business from HT d.d. to HTmobile with effect from 1 January 2003.
The remaining unpaid capital of HRK 60 million was paid during 2003.
Of the HRK 1,398 million contributed in kind, HRK 112 million relates to invested intangible assets and HRK 1,286 million relates to invested property, plant and equipment.

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

Investments in associates comprises:

	2003 HRK millions	2002 HRK millions
HPT d.o.o. Mostar	-	21
HT d.o.o. Mostar	22	-
HP d.o.o. Mostar	2	-
Eronet d.o.o.	74	35
At 31 December	**98**	**56**

The company HPT d.o.o. Mostar was separated into two legal entities, HT d.o.o. Mostar and HP d.o.o. Mostar effectively as at 1 January 2003.

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

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

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

	2003 HRK millions	2002 HRK millions
Cost and net book value		
At 1 January	56	41
Share of profits	42	15
At 31 December	**98**	**56**

13. Other investments (the Group and the Company)

	2003 HRK millions	2002 HRK millions
Available-for-sale investments - non-current	246	403
Total non current investments	**246**	**403**
Available-for-sale current investments	776	256
Total current investments	**776**	**256**

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

Issuer	Interest rate	Maturity	2003 HRK millions	2002 HRK millions
Government Agency for Savings Insurance and Bank Restructuring	8.375%	19 december 2005.	108	104
Government Agency for Savings Insurance and Bank Restructuring	8.0%	19 december 2003.	-	40
Government of Croatia	6.875%	14 december 2008.	57	52
Croatian Institute for Health Insurance	8.5%	19 july 2004.	71	198
Other equity securities	-		10	9
			246	**403**

Current available-for-sale investments include unit holdings in money market funds of PBZ Invest d.o.o., Euroinvest d.o.o. and Raiffeisenbank Invest d.o.o. and investment in treasury bills of Ministry of Finance of Republic of Croatia in the amount of HRK 140 million and HRK 636 million, respectively.

14. Inventories

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Merchandise	98	119	40	119
Inventories and spare parts (see Note 10)	181	30	173	30
	279	**149**	**213**	**149**

15. Debtors

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Trade debtors	1,177	1,188	818	1,188
Other debtors	144	146	133	146
	1,321	**1,334**	**951**	**1,334**

16. Trade payables and other current liabilities

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Trade payables	298	351	113	351
Accrued liabilities for redundancy	281	-	281	-
Accrued liabilities	393	334	351	334
Payroll and payroll taxes	92	55	82	55
VAT and other taxes payable	2	96	-	96
Other creditors	27	52	5	52
	1,093	**888**	**832**	**888**

17. Employee benefit obligations

The Group and the Company provides benefit plans for all employees. Provisions for pension obligations are established for benefits payable in respect of retirement, jubilee (length of service) and surviving dependant pensions. One off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement from the Group and the Company and jubilee benefits are dependent on the number of years of service. All benefit entitlements are determined from the respective employee's monthly remuneration.
The obligation resulting from defined benefit pension plans is determined using the projected unit credit method. Unrecognised gains and losses resulting from changes in actuarial assumptions are recognised as income or expense over the expected remaining service life of the active employees. There were no plan terminations or curtailments for the year ended 31 December 2003.

17. Employee benefit obligations (continued)

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

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Present value of funded defined benefit obligations	201	235	192	235
Unrecognised actuarial losses	(77)	(124)	(72)	(124)
Unrecognised past service cost	(11)	(12)	(11)	(12)
Net liability	**113**	**99**	**109**	**99**

Pension expense comprises the following:

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Current service cost	17	20	16	20
Interest expense on obligations	17	17	16	17
Amortisation of past service cost	1	1	1	1
Amortisation of loss	7	9	7	9
Total pension expense	**42**	**47**	**40**	**47**

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

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Net liability, beginning of year	99	80	99	80
Net liability, sold to subsidiary (Note 25)	-	-	(3)	-
Net expense recognised in the income statement (Note 7)	42	47	40	47
Payments made under scheme	(28)	(28)	(27)	(28)
Net liability, end of year	**113**	**99**	**109**	**99**

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

	2003 %	2002 %
Discount rate (p.a.)	7.0	7.0
Wage and salary increases (annually)	5.0	5.0

18. Provisions (the Group and the Company)

As at 31 December 2003 the Company and the Group has provided HRK 108 million and HRK 111 million (2002: HRK 75 million) for several legal actions and claims that management has assessed as likely to be asserted in the future against the Company and the Group, respectively. The net increase in the Company's provisions of HRK 33 million (the Group: HRK 36 million) consists of HRK 62 million (the Group: HRK 65 million) for new legal claims (2002: HRK 23 million) and HRK 29 million of used provision during 2003 (2002: nil).

19. Share capital

Authorised, issued, fully paid and registered share capital

	2003 HRK millions	2002 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 2003.

20. Legal reserves (the Group and the Company)

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

21. Other reserves (the Group and the Company)

Other reserves are the result of certain adjustments made to the assets and liabilities transferred from HPT s p.o. at 1 January 1999 to reflect certain assets and liabilities that were not adequately incorporated within the net assets transferred at 1 January 1999.
These adjustments primarily relate to an appropriation of HRK 370 million that was declared on 1 June 1999 in respect of the 1998 profits of the former HPT s p.o. and an additional amount payable in respect of taxes in the amount of HRK 240 million that resulted from the review subsequently performed by the tax authorities.
During 2003, the Company has covered other reserves from 2002 net profit.

22. Revaluation reserves (the Group and the Company)

	2003 HRK millions	2002 HRK millions
Balance as at 1 January	1,964	2,313
Release of revaluation reserves to retained earnings (net of deferred tax)	(242)	(349)
Balance as at 31 December	1,722	1,964

The release of revaluation reserves to retained earnings in the amount of HRK 302 million (2002: HRK 318 million), net of HRK 60 million of deferred tax (2002: HRK 79 million) corresponds to the difference between depreciation based on the revalued carrying amount of property, plant and equipment and depreciation based on the property, plant and equipment's original cost, as explained in Note 10.

23. Commitments

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

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Current year expense (Note 4)	72	60	56	60

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

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Within one year	58	47	47	47
Between 2 and 5 years	144	125	103	125
Greater than 5 years	213	101	153	101

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

b) Capital commitments
As at 31 December 2003, the Group were committed under contractual agreements to capital expenditures amounting to approximately HRK 415 million (2002: HRK 1,400 million).

	HT Group 2003 HRK millions
Intangible assets	208
Property, plant and equipment	207
	415

24. Contingencies (the Group and the Company)

a) Taxation

There are no formal procedures in Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities during the subsequent six years (absolute tax expiry). Accordingly, there remains a risk that the relevant tax authorities may have a different opinion to HT d.d. as to the interpretation and application of the law on HPT s p.o. or its successor, which could have an effect on the tax charge in the income statement for the years ended 31 December 2003, 31 December 2002, 31 December 2001, 31 December 2000, 31 December 1999 and the current taxation amounts due at 31 December 2003, 31 December 2002, 31 December 2001, 31 December 2000, 31 December 1999.

b) Litigation

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

c) Refundable connection fees

Prior to the formation of the former HPT s p.o. in 1990, and, subsequently, HPT s p.o. or its predecessor entities (together "HPT") entered into contracts with customers and municipalities which provided for the payment of connection fees to HPT. There were variations in the terms of these contracts between regions, but certain contracts provided for the refund of connection fees on disconnection or for other specified events.
In addition, in war-affected areas there is uncertainty as to whether all subscribers who had paid connection fees were actually connected. On 1 January 1999 HT d.d. assumed responsibility for the liability arising from these contracts under the terms of the Separation Law.
Consequently, HT d.d. bears the risk noted above and may have an unrecorded liability for the refund of connection fees, although the extent of any such exposure cannot reliably be determined.
The Management Board is of the opinion that the actual amounts not provided and which will need to be refunded in the future are immaterial in the context of these financial statements.

d) Subscription fee

The Constitutional Court of the Republic of Croatia ruled, by its decision passed on 9 July 2003, to abolish the provision from the Regulation on General Terms for the Provision of Telecommunications Services, 1995 (Official Gazette of the Republic of Croatia, no. 84/95, 101/96, 105/96, 2/97), an Article 50 Paragraph 1 which define subscription fee as a fee for readiness of telecommunication system. The new Law on Telecommunications that was passed after the decision of the Constitutional Court and has started to apply from 1 August 2003 contains a provision on a subscription fee (monthly fee for access to the telecommunication system) which can be considered as a legal basis for charging the subscription fee in future. However, that provision of the new Law on Telecommunications is still not tested in practice and therefore no guarantee may be given regarding its interpretation. If the interpretations of the relevant authorities would not follow a position that the new Law on Telecommunications provides the legal basis for charging subscription fee, then the Constitutional Court decision may have a material effect on the financial statements for the periods subsequent to 31 December 2003.
The Company is not aware of any claims made by customers or Consumer associations that would require recording of material provisions in the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

25. Balances and transactions with related parties (the Group)

HT d.d. is a joint stock company which operates in Croatia in the telecommunications market. As a result of HT d.d.'s strategic position within the Croatian economy, a substantial portion of its business is transacted with the Croatian Government, its departments and agencies and companies owned by the Croatian Government.
The transactions specified in the table below primarily relate to the transactions with the companies owned by Deutsche Telekom AG (DTAG). The Company enters into transactions in the normal course of business on an arm's length basis. These transactions included the sending and receiving of international traffic to/from these companies during 2003 and 2002. Further, DTAG provided technical assistance to the Group in the amount of HRK 57 million (2002: HRK 77 million).

The main transactions with related parties during 2003 and 2002 were as follows:

	Revenue		Expenses	
	2003	2002	2003	2002
Company	HRK millions	HRK millions	HRK millions	HRK millions
T-Systems ITS, Germany	149	155	45	54
HT Mostar, Bosnia and Herzegovina	43	50	38	36
T-Mobile, Germany	32	25	6	6
Others	47	43	26	29
Total international settlements	**271**	**273**	**115**	**125**
Deutsche Telekom AG, Germany	–	–	63	77
T-Systems Nova, Germany	–	–	40	2
Others	–	–	11	12
Total intercompany services	**–**	**–**	**114**	**91**
T-Systems Nova, Germany	–	–	45	–
Others	–	–	7	–
Total capital expenditures	**–**	**–**	**52**	**–**
Total related parties	**271**	**273**	**281**	**216**

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

	Revenue		Expenses	
	2003	2002	2003	2002
Company	HRK millions	HRK millions	HRK millions	HRK millions
T-Systems ITS, Germany	87	145	31	57
HT Mostar, Bosnia and Herzegovina	85	86	71	73
T-Mobile, Germany	6	1	5	1
Others	11	10	13	11
Total international settlements	**189**	**242**	**120**	**142**
Deutsche Telekom AG, Germany	–	–	52	77
T-Systems Nova, Germany	–	–	17	3
Others	–	–	–	20
Total intercompany services	**–**	**–**	**69**	**100**
Total related parties	**189**	**242**	**189**	**242**

25. Balances and transactions with related parties (the Group) (continued)

During 2003, the Company sold the net assets to its subsidiary HTmobile as stated in the table below:

Sale of net assets (economic entity)	Revenue / costs 2003 HRK millions
Intangible assets	126
Tangible assets, investment materials and advances for fixed assets	255
Receivables	346
Inventories and advances for inventories	80
Prepayments and accrued income	15
Total assets	**822**
Long-term employee benefit obligations	(3)
Trade payables and other current liabilities	(121)
Short-term borrowings and current portion of long-term loans	(4)
Accruals and deferred income	(76)
Total liabilities	**(204)**
Net assets	**618**

Revenue and costs of sold assets and liabilities are netted out in the Company's income statement for 2003.

26. Financial instruments (the Group and the Company)

The Company is exposed to international service-based markets. As a result, it can be affected by changes in foreign exchange rates and interest rates. The Company also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Company does not use derivative instruments either to manage risk or for speculative purposes.

a) Credit risk
The Company has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics. Company procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.
The Company does not guarantee obligations of other parties.
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.
Consequently, the Company considers that its maximum exposure is reflected by the amount of debtors (see Note 15) net of provisions for impairment recognised at the balance sheet date.
Additionally, the Group and the Company are exposed to risk through cash deposits in the banks. Management of the risk is focused on dealing with most reputable banks in foreign and domestic ownership in the domestic market and on contacts with the banks on a daily basis.

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

c) Foreign exchange risk
The Company's functional currency is the Croatian Kuna (HRK). Certain assets and liabilities are denominated in foreign

currencies which are translated at the prevailing middle exchange rate of Croatian National Bank at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect short-term cash flows.
Significant amount of deposits in the banks are made in foreign currency, primarily in Euro. As there is no adequate balance in Euro denominated liabilities at the balance sheet date, the Group and the Company are exposed to translation foreign currency risk.

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

27. Service Concession Arrangements (the Group and the Company)

The Group is part to the following concession agreements:

a) Concession Agreement for the performance of telecommunication services in a fixed network
With this Agreement, the Government grants HT d.d., as the Concessionaire, the right to provide the following services throughout the territory of the Republic of Croatia:

I. Public Voice Services over a Fixed Public Telecommunications Network,
II. International Telecommunications Services,
III. Data Transmission Services,
IV. Domestic and international Leased Line Services,
V. Telecommunications services open to competition in a fixed network in accordance with Article 25 of the Law on Telecommunications.

The Concession Agreement was signed on 22 September 1999, with two amendments dated 30 July 2001 and 17 October 2001.
The Concession is granted for the period of 30 years, and it can be extended under the same conditions. The Concession Agreement conditions may be revised upon the agreement of both parties.
The initial Concession fee of 0.1% of the gross annual revenue of HT d.d. realised from licensed services is altered starting from 1 January 2003, according to the Regulation on Concession fees. The new fee is 0,5% of the gross annual revenue.
After the expiry of HT d.d.'s exclusive rights in the fixed network on 1 January 2003, the Law on Telecommunications stipulates adjusting of the Concession Agreement with provisions of the Law. HT d.d. has submitted an invitation for negotiations to the Government of the Republic of Croatia.
HT d.d. has the right to provide the services under I to V above, but has had, and probably will have again, the obligation to provide Universal services, as determined in Article 37 of the Law on Telecommunications (NN 122/03, 158/03, 177/03).
The Concession Agreement can be terminated or suspended by the Government of the Republic of Croatia with twelve months notice if HT d.d. after issuance of a third warning from the Government if it fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Law on Telecommunications or of relevant Subordinate Legislation.
The Concession Agreement defines certain network build-out targets which HT d.d. has met as of 31 December 2002, but the Government (through Ministry) i.e. authorized regulatory body may set new, reasonably achievable, service quality standards.
Prices for telecommunication services that are rendered by HT d.d. and for which authorized regulatory body determined that HT d.d. has significant market power on public voice service market in fixed network and leased telecommunication lines market have to be cost driven and pre-approved by authorized regulatory body in accordance with Article 63 Paragraph 3 of the Law on Telecommunications.

27. Service Concession Arrangements (the Group and the Company) (continued)

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

Pursuant to these Agreements, HTmobile has the right to develop and operate telecommunications services with usage of radio frequency spectrum in the global mobile network system (GSM Concession), and the right to develop and operate a network for the provision of NMT telecommunications services (NMT Concession).

These Concession Agreements were first concluded between HT d.d. and Government of the Republic of Croatia. Both contracting parties have subsequently changed. On HT d.d.'s part, due to the spin-off of mobile business unit into a separate legal entity, the Concession Agreements have been transferred to the new company, HTmobile, and signed on 28 January 2003. The other contracting party is now the Croatian Institute for Telecommunications, to which the Government has transferred some of its authority. The newly concluded GSM and NMT Concession Agreements repeal the old ones, concluded between the Government of the Republic of Croatia and HT d.d.

The GSM Concession Agreement lasts for 10 years, and the NMT Concession Agreement lasts for 30 years starting from 16 September 1999. In addition to the initial concession fee paid in amount of HRK 100 million, HTmobile currently pays an annual concession fee of HRK 4 million for the NMT Concession, and HRK 5 million for the GSM Concession.

HTmobile also has to pay annual frequency fee of HRK 100 thousand per one duplex channel pursuant to the GSM Concession, and HRK 12 thousand pursuant to the NMT Concession.

Finally, HTmobile has to pay annual fee of HRK 150 per one mobile radio station (i.e. subscriber) in both GSM network and NMT network. However, HTmobile d.o.o. has the right to recharge this fee to its subscribers.

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

In the case that the given frequency band for GSM network reaches its capacity, bids will be invited for DCS 1800 concession but not earlier than 31 October 2003. As an exception to this provision, bids may be invited for DCS 1800 concession in combination with the UMTS concession, even before 31 October 2003.

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

The Telecommunications Council has the right to revoke the Concession if the Concessionaire fails to comply with certain fundamental conditions of the Agreement or fundamental terms of the Law on Telecommunications or of relevant Subordinate Legislation.

28. Cash and cash equivalents and time deposits

a) Cash and cash equivalents

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

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
Cash on hand and balances with banks	2.168	1.436	1.865	1.416
Short-term investments	125	-	125	-
Cash and cash equivalents	2.293	1.436	1.990	1.416

Short-term investments relate to the purchase of treasury bills from Ministry of Finance of Republic of Croatia with initial maturity up to 3 months that bear an Interest rate in range from 4.75% to 7.15%.

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

b) Time deposits

Time deposits are accounts that bear interest from 2.75% to 7.25% and that Company is entitled to withdraw with prior notice.

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

	2003 HRK millions	2002 HRK millions
Privredna banka Zagreb d.d.	533	541
Zagrebačka banka d.d.	521	362
Erste Steiermarkische Bank d.d.	335	380
Raiffeisenbank Austria d.d.	237	75
Hypo Alpe Adria Bank d.d.	124	85
Hrvatska poštanska banka d.d.	101	-
Volksbank d.d.	25	-
	1.876	**1.443**

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

	HT Group		HT d.d.	
	2003 HRK millions	2002 HRK millions	2003 HRK millions	2002 HRK millions
HRK	2,629	1,475	2,481	1,455
EUR	1,520	1,392	1,378	1,392
USD	20	12	7	12
	4,169	**2,879**	**3,866**	**2,859**

29. Subsequent events

The State Inspectorate of the Republic of Croatia (hereinafter: the State Inspectorate), on January 29, 2004, started an investigation on the implementation of the provisions of the Law on Consumer Protection regarding a method of charging public voice services. Namely, the Company charges intervals of 60 seconds for national calls and intervals of 15 seconds for fixed to mobile and international calls. The State Inspectorate is investigating allegations pursuant to which the applied charging method should be per 1 second instead of intervals the Company is currently charging. If the State Inspectorate will conclude that the Company must charge customers on per second basis, it may pass a resolution pursuant to which (i) the Company must return to the residential customers overcharged amounts from the day of application of the Law on Consumer Protection (September 2003) until the date of resolution; and (b) the Company would be prohibited to further charge per 60 or per 15 seconds and that per 1 second charging should be applicable method. In the case that the Company would have to refund the residential customers amounts deemed as overcharged from the day of application of the Law on Consumer Protection (September 2003) until 31 December 2003 estimates may amount in range from HRK 100 million and HRK 150 million. Nevertheless, the Company is unable to assess whether the current investigation that is performed by State Inspectorate will result in material liability, and therefore, no provision is recorded in the financial statements as at 31 December 2003.

Other than above mentioned, no events or transactions have occurred since 31 December 2003 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations, or cash flows of the Company.

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