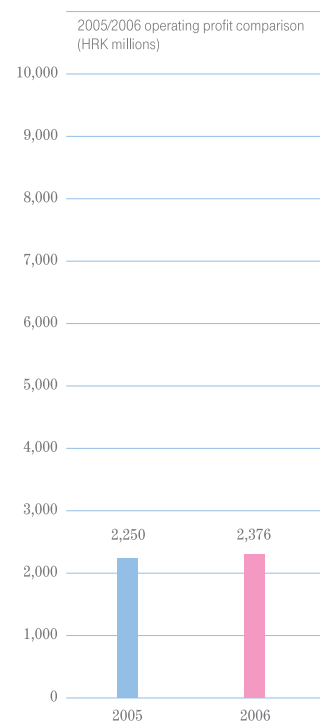
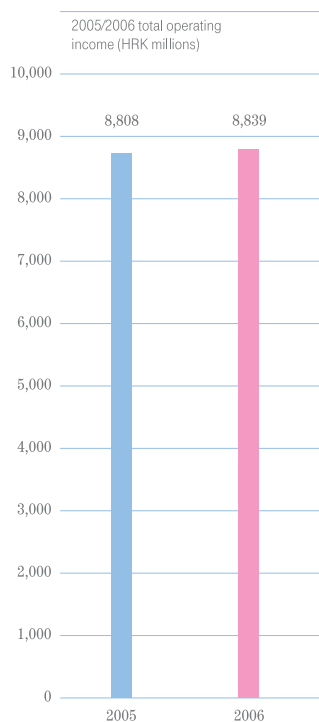
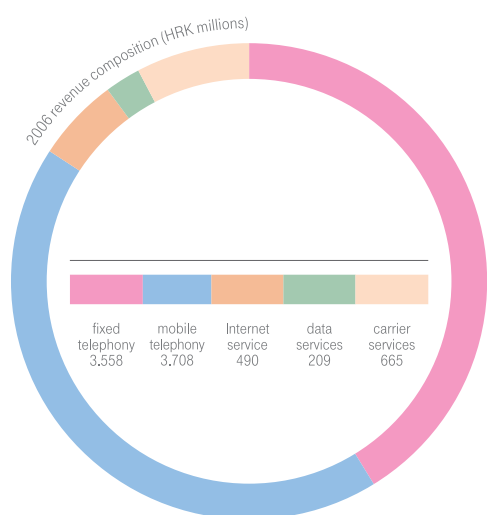




Annual Report 2006

Financial Highlights

HRK millions	2006	2005	% change
Total operating income	8,839	8,808	0.35%
Net revenues	8,630	8,605	0.29%
Operating profit	2,376	2,250	5.60%
Net profit for the year	2,058	1,921	7.13%
Total assets	16,942	15,539	9.03%
Long-term debt	769	814	-5.53%
Total shareholders' equity	13,918	12,687	9.70%
Operating margin %	27.5	26.1	
Net income margin %	23.8	22.3	
ROA %	12.1	12.4	



Operating Statistics

T-Com fixed lines	2006	2005	% change
Total number of mainlines (thsd)			
POTS (including FGSM)	1,521.4	1,541.6	-1.3%
ISDN	125.2	133.4	-6.1%
ADSL (thsd)	215.5	101.3	112.7%
Number of channels (including FGSM)			
Network digitalization (%)	100	100	-
Fixed-line penetration (%)	37.2	40.0	-
Total traffic (thsd)	4,828,332	5,657,793	-14.7%
of which:			
Nacional calls	3,979,120	4,670,186	-14.8%
To national mobile network	533,610	672,762	-20.7%
To VATS	68,424	67,042	2.1%
To international fixed networks	139,758	174,850	-20.1%
To international mobile networks	33,610	39,765	-15.5%
Remaining traffic	73,810	33,188	122.4%

T-Com Internet	2006	2005	% change
Dial-up users (thsd)	626.1	600.2	4.3%
Fixed-line subscribers (thsd)	0.4	0.5	-11.0%
VPN points (thsd)	0.8	0.5	73.7%
Internet penetration dial-up (%)	27.0	27.0	0.0%
Total number of minutes spent online for dial-up customers (thsd min)	1,457,947	2,063,088	-29.3%

T-Mobile mobile communications	2006	2005	% change
Total T-Mobile customers (thsd)	2,158.0	1,902.5	13.4%
No. of prepaid customers, T-Mobile	1,603.3	1,486.1	7.9%
No. of postpaid subscribers, T-Mobile	554.7	416.4	33.2%
T-Mobile market share (%)	49.1	52.1	-
Mobile penetration (%)	97.7	82.4	-
MOU per average subscriber	117.2	109.2	-
Blended ARPU (in HRK)	136.0	151.8	-



Content

III Financial Highlights

IV Operating Statistics

5 I. Introduction

Letter of the President of the Management Board
Management Board
Supervisory Board
Supervisory Board's Report

21 II. Business Review 2006

Market overview
Regulatory Environment
T-HT's Strategy
Organization of T-HT
T-Com
T-Mobile
Human Resources

49 III. Corporate Social Responsibility

Donations and sponsorships
Environment protection

55 IV. Management's Discussion of Financial Performance for 2006

63 V. Consolidated Financial statements

Corporate profile
Auditor's Report
Consolidated HT Group income statement
HT d.d. income statement
Consolidated HT Group balance sheet
HT d.d. balance sheet
Consolidated HT Group cash flow statement
HT d.d. cash flow statement
Consolidated HT Group statement of recognised income and expence
HT d.d. Statement of recognised income and expence
Notes to the financial statements

117 VI. Index

T-HT: first choice ■

□ We want to develop a long-term, trustful partner relationship with our customers. All activities, efforts and attention of T-HT's employees are focused on one goal: a satisfied customer. This is why we continually provide all telecommunications services and specific communication solutions tailored to the customer's needs so that T-Hrvatski Telekom can be recognized by customers among many options as their first choice provider on the telecommunications market. We want our care for customers to be more than a promise, to make our customers feel as part of our family because we are available to them 24 hours a day, 7 days a week, 365 days a year.









I. Introduction



Letter of the President of the Management Board
Management Board
Supervisory Board
Supervisory Board's Report





Letter of the President of the Management Board

Dear shareholders,

I am pleased to present to you the Annual Report for 2006, the year in which the T-HT Group maintained its firm leading market position and achieved good financial results, and in the context of a challenging market, significantly contributed to development of the social community. In the past year, the Croatian telecommunications market saw an increasingly rigorous regulatory environment, strengthened competition, the introduction of new, technologically advanced products and a general fall of prices. Despite the fact that 2006 was a challenging and tough business year, we have managed to achieve the majority of our goals.

In 2006 T-HT unbundled the first local loops and concluded contracts on access with six operators. The frame contracts which T-HT concludes with its key and large accounts became the subject of analysing of the Agency for the Protection of Market Competition, and the Croatian Telecommunications Agency notified all operators that it would assume responsibility for joint use of the erected telecommunications infrastructure.

In 2006 alone, the number of active competitors in fixed telephony rose from two to seven, while the third operator established its position in mobile telephony. The competitors introduce new products at a rapid pace, build their own network, which allows direct connection through their own lines and telecommunications capacities wholesale, and they engage in price competition.

In October 2006 the number portability service was introduced within mobile network which makes it possible for customers to switch to the network of another mobile operator while retaining their telephone number and prefix.

The strategy of the T-HT Group is to use its position as the only operator to offer a full range of telecommunications services and to provide its 2 million customers with integrated packages including one or several telecommunications services such as transmission of voice, data, audio and video recordings and Internet access. The Group's strategy is to continue to introduce new, technologically advanced and attractive services for which we are already recognized in the market.

After the acquisition of Iskon Internet d.d., one of the leading alternative operators in Croatia, in May 2006, the latter became a member of the T-HT Group. Iskon will continue to develop, within the Group, the growing segment of customers who prefer alternative products and who were not intensively served by T-HT before 2006. The financial reports of Iskon are consolidated within the T-HT Group.

As for our operations in Bosnia and Herzegovina, all preparatory activities were taken to ensure the Group's 39.1% ownership interest (as of 1 January 2007) in the company Hrvatske telekomunikacije d.o.o. Mostar, which in the meantime integrated its fixed and mobile business by merging the company HT Mobilne komunikacije d.o.o. Mostar.

The Group is continuing the restructuring process with a view to maintain the competitive edge in the market and in this respect create basic pre-requisites for long-term growth and development. The most painful, but unavoidable business-related measures are focused on headcount optimization, which has been performed together with the social partners. Besides high severance pays, T-HT initiated, as a socially sensitive and responsible employer, establishment of the section for support to surplus workers with the main goal to provide workers, through the program "Support Plus", with additional care and professional assistance in the process of entering the open labor market.

We have addressed the challenges faced by T-Com so far more than successfully. Despite a more rigorous regulatory environment and competition development, T-Com has maintained its leading market position in all fixed telephony segments. Some trends in the industry, most notably general fall of prices, fixed to mobile substitution, entry of mobile operators in the fixed telephony market, can be seen as objective aggravating circumstances. At the end of the day, the result had to reflect a certain fall in market share and revenues.

Letter of the President of the Management Board

A key element of our strategy is to develop and push take-up of attractive products based on new technologies such as MAXadsl (broadband connection based on ADSL technology) and MAXtv (broadband connection to TV via the Internet). The number of MAXadsl connections more than doubled in 2006, from approximately 101,000 at the beginning of 2006 to reach more than 215,000 at the end of the year. We are proud of our large contribution to the development plan of the Republic of Croatia regarding realization of 500,000 broadband connections in Croatia by the end of 2008. Since September 2006 Group has been offering, as one of the first ten operators in Europe, a next generation interactive digital television service, MAXtv. There are more than 50 local and foreign channels within the package of basic services, as well as video on demand. The package is further upgraded on a daily basis.

In the course of 2006 T-Com offered to its residential and business customers a number of new advanced services and special offers and set up its WiMax networks in two counties according to the concession conditions.

In 2006 the mobile telephony market was significantly marked by the entry of the third mobile operator, penetration growth from 82.4% to 97.7% and introduction of number portability service.

T-Mobile continues to achieve excellent business results and maintains the leading market position with more than 2 million customers. However, the overall pressure on prices and dynamic competitive market resulted in reduced rate of revenue growth and fall in market share from 52,1% to 49,1%.

Nevertheless, T-Mobile is still recognized by its customers as the most popular brand which offers diversity of access through service quality, reliability, direct customer relationship and a quality network. I would like to highlight, from a long list of T-Mobile achievements, novelties in postpaid tariff packages which combine the costs of all services into one tariff package - Option Unlimited, which has made it possible for both postpaid and prepaid customers to communicate, without restriction, with more than 2 million customers, and the service web 'n' walk, which facilitates easy access to the Internet, e-mail and other contents to all postpaid customers.

The T-HT Group delivered a strong financial performance in 2006 as well: the total revenues amount to HRK 8.8 billion, which corresponds to last year's figures, while the net profit amounts to HRK 2.1 billion and represents a 7.1% increase in comparison with the last year. Fall of fixed telephony revenues has been compensated with the growth of mobile telephony segments and Internet services.

Stable and successful business operations, as well as highly liquid position of the Company, allow payment of dividends to the shareholders without major impact on business operations. Furthermore, major investments were made (more than HRK 1,450 million) in 2006 in different business areas of the Group.

The value-oriented approach which T-Hrvatski Telekom has adopted in its business operations relies on true responsibility of the Company to the society and the environment. In 2006 we participated, as the first partner of UNICEF in Croatia, in the project promoting importance of children's early emotional development and attachment parenting "First Three Matter Most", and at the end of the year we organized together with our partners the largest Croatian mine clearance campaign "Square of Peace". In 2006 we continued, for the third year in the row, the well-known, large project of internetization of Croatian schools "Net in School". Our company T-Mobile donated five ambulance cars with up-to-date medical equipment to Croatian regional centers.

Besides, all our employees were involved in donation activities by giving them the opportunity to propose projects for the large regional donation competition titled "Together We Are Stronger" for projects in the field of culture at a local level.

As for the culture, T-Com supported also in 2006, through the project KulTurist, a number of cultural events throughout Croatia, among which are 13 festivals, some of which with a long tradition and international reputation. Only motivated and satisfied employees can contribute to strategic goals and total success of the company in the market. This is why I am very proud that we are, according to several surveys, the most desirable employer in Croatia. In 2006 we signed the new Collective Agreement which reflects a high degree of workers' rights in T-HT, while at the same time representing an important step towards modern business practices under which the employees can be rewarded according to their performance.

I would especially like to thank all employees of the T-HT Group for their business commitment and efforts, and in this respect for their extraordinary contribution to very good business results and excellent market position of our Company. I would like to use this opportunity to encourage them to continue their strong engagement in 2007 as well, because we will be faced with new market challenges in this year.

I am convinced that only joint, team work and outstanding efforts of every individual can help us achieve all our business goals, and in this way meet the expectations of our customers, shareholders and the social community in a broader sense.



Ivica Mudrinić,
President of the Management Board

In Zagreb, March 2007



Management Board

IVICA MUDRINIĆ

President of the Management Board and CEO

Ivica Mudrinić was born in 1955. He graduated in electrical engineering from the University of Toronto in 1978. His first job was in the Product Development Department of Motorola Communications, and in 1985 he founded his own company, MX Engineering Inc. In 1990 he returned to Croatia and soon became adviser for communications to the President of the Republic. At the end of the following year, he became Assistant Minister for Maritime Affairs, Transportation and Communications, and in 1992 was appointed Minister. From 1994 Ivica Mudrinić also served as President of the Telecommunications Council. He held the post of President of the Management Board of Hrvatska radiotelevizija (Croatian Radio and Television) from 1996 until 15 October 1998, when he was appointed CEO of Hrvatska pošta i telekomunikacije (Croatian Post and Telecommunications). After the separation of Croatian Post and Telecommunications he has served since 1 January 1999 as President of the Management Board of T-Hrvatski Telekom.

IVANA ŠOLJAN

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

Ivana Šoljan was born in 1964. She studied Comparative Literature and English at the Faculty of Philosophy and Theater Directing at the Academy of Dramatic Arts at the University of Zagreb. She began her professional career as a producer of commercial and musical videos (SIM Studio, 1983-1987), radio shows (Radio 101, 1987-1988) and as co-founder and chief producer at the national commercial television Z3 (1988-1990). At the beginning of

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

RAINER RATHGEBER

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

Rainer Rathgeber was born in 1964. He earned a degree in economics from the University in Passau. He started his career by working for the prominent consulting companies A.T. Kearney and Roland Berger based in Germany and Latin America. Four years ago he joined the team of T-Mobile International, working



Rainer Rathgeber, Ivica Mudrić, Ivana Šoljan, Manfred Ohl, Irena Jolić Šimović, Jürgen P. Czapran

in the area of strategy, market management, service development and regulatory issues. Since 2004 he was responsible, as Executive Vice President, for development of T-Mobile International market, covering all T-Mobile markets in Europe. At the session of the Supervisory Board of T-Hrvatski Telekom, held on 8 September 2006, Rainer Rathgeber was named Member of the Management Board of T-HT and Chief Operating Officer Mobile and President of the Management Board and Chief Executive Officer of T-Mobile Croatia.

IRENA JOLIĆ ŠIMOVIĆ

Member of the Management Board and Chief Human Resources Officer

Irena Jolić was born in 1969. She graduated from the Faculty of Economics in Zagreb and completed MBA studies at IEDC, Bled. Prior to joining Hrvatske telekomunikacije she worked at Hrvatska radiotelevizija (Croatian Radio and Television), Ministry of the Sea, Transport and Communications and Ministry of Immigration. Irena Jolić Šimović has worked at Hrvatske telekomunikacije since December 1998. All this time she held senior management positions. Before being appointed to her current position she served as the Executive Director of Sub-unit for Corporate Strategy and Business Development. She was successful in managing the processes of transformation and reorganization of the company and contributed a great deal to positive changes in T-HT. At the Supervisory Board session held on 2 June 2006, Irena Jolić Šimović was appointed to the posi-

tion of Member of the Management Board of T-HT and Chief Human Resources Officer. She has held the latter position since 1 August 2006.

JÜRGEN P. CZAPRAN

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

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

BOŽIDAR POLDRUGAČ

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

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

MANFRED OHL

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

KATHARINA HOLLENDER

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

WOLFGANG BREUER

Member of the Management Board and Chief Operating Officer Mobile until 3 June 2006

BOŽANA CATHY GREGOIRE

Member of the Management Board and Chief Human Resources Officer until 22 March 2006

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

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

Miroslav Kovačić,
Deputy president

Horst Hermann,
Member

Ana Hrastović,
Member

Siegfried Pleiner,
Member

Miljenko Boban,
Member

Josip PupiĆ,
Member

Dr. Ralph Rentschler,
Member

Supervisory Board's Report

Pursuant to Article 263, paragraph 3, and Article 300.c, paragraph 2, of the Company Law and Article 31 of the Articles of Association of HT - Hrvatske telekomunikacije d.d., the Supervisory Board of the company HT - Hrvatske telekomunikacije d.d. Zagreb, Savska cesta 32, (hereinafter: "Company"), consisting, on the day of issuance of this report, of Mr. Michael Guenther, Chairman of the Supervisory Board, Mr. Miroslav Kovačić, Deputy Chairman of the Supervisory Board, Mr. Gerhard Mischke, Ms. Ana Hrastović, Mr. Horst Hermann, Dr. Ralph Rentschler, Mr. Siegfried Pleiner, Mr. Miljenko Boban and Mr. Josip Pupiće, representative of the workers of HT d.d., Members of the Supervisory Board, submits to the General Assembly this

REPORT

on performed supervision during the business year 2006 and on results of the examination of the reports related to the closing of the business year 2006

The content of this report includes:

- in which manner and to which extent the managing of the company has been monitored by the Supervisory Board during the business year 2006,
- the results of the examination of audited annual financial statements as per 31st of December 2006 together with auditor's report as well as of the proposal for the utilization of the profit
- the results of the examination of the Management Board report on the status of business operations for the business year 2006
- the results of the examination of the report on relations with the governing company and affiliated companies thereof.

Corporate Profile

Deutsche Telekom AG (hereinafter: "DTAG"), as the Strategic Partner of HT d.d., purchased additional 16% of ordinary registered shares of HT on 25 October 2001 and thus became the majority shareholder with 51% ownership stake. Croatian Government, representing the Republic of Croatia, by its decision, dated as of 17 February 2005, transferred 7% of its shares to the Fund of Homeland War Veterans and Their Family Members (hereinafter "Fund"). As of 12 April 2005, the Fund is registered as a HT's shareholder on its securities account at the Central Depository Agency with a 7% ownership stake. Erste-invest d.o.o. is a company that manages the Fund and in compliance with the Act on the Fund of Homeland War Veterans and Their Family

Members is authorized to participate in assemblies of companies owned by the Fund. Republic of Croatia became the shareholder of the Company with a 42% ownership stake.

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

Supervisory Board

During 2006, the composition of the Supervisory Board of the Company changed as follows:

Mr. Siegfried Pleiner has been elected Supervisory Board Member of T-HT for another term of office of four (4) years, with commencement as of 22 November 2006.

Due to changes of the responsibilities on DT's board level, Chairman of the Supervisory Board, Mr. Gerhard Mischke, resigned from the position of the Chairman of the Supervisory Board, with effect as of 12 February 2007. Mr. Michael Guenther is elected as the Chairman of the Supervisory Board as of 12th February 2007.

Audit Committee

On the day of issuance of this report: Mr. Horst Hermann, Chairman, Ms. Ana Hrastović, Member, and Mr. Siegfried Pleiner, Member, are the members of the Committee.

The Audit Committee was supported in 2006 by Mr. Juergen Johnen as Advisor. Mr. Volker Wagner resigned from the position of the Advisor of the Audit Committee, with effect as of 23rd November 2006. Mr. Kay Nolden is elected as the Advisor of the Audit Committee as of 23rd November 2006.

Management Board

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

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

Ms. Božana Cathy Gregoire was recalled as Member of the MB and Chief Human Resources Officer, with effect as of 22 March 2006, further to the submitted resignation.

Mr. Wolfgang Breuer was recalled as Member of the MB and COO Mobile, with effect as of 3 June 2006, further to the submitted resignation.

Ms. Irena Jolić Šimović, was appointed MB Member and Chief Human Resources Officer, as of 1st August 2006.

Ms. Ivana Šoljan, was appointed Member of the MB and Chief Operating Officer Fixed and Broadband (COO T-Com) for another term of office, as of 2nd September 2006.

Mr. Rainer Rathgeber was appointed MB Member and Chief Operating Officer Mobile, as of 1st October 2006.

Mr. Ivica Mudrinić was appointed President of the MB and Chief Executive Officer (CEO) for another term of office, as of 1st January 2007.

Ms. Katharina Hollender has been promoted within DT Group and she resigned from the position of the Member of the MB and Chief Financial Officer. Therefore Supervisory Board terminated her term of office as the Member of the MB and Chief Financial Officer, with effect as of 1 February 2007.

Mr. Juergen Czapran was appointed Member of the MB and Chief Financial Officer as of 12 February 2007.

Performed supervision during the business year 2006

In 2006 there were 4 sessions of the Supervisory Board. The Supervisory Board supervised the managing of Company's business operations and performed other tasks in accordance with the Company Law, the Articles of Association of the Company, and the By-Laws on the Work of the Supervisory Board of the Company.

The Supervisory Board made the following out-of-session decisions:

- On the giving the prior approval to the Management Board of HT d.d. for the appointment of the individuals to the Supervisory Board of Iskon Internet d.d.
 - On the giving the prior approval to the Management Board of HT d.d. for the signing of the Agreement with the Government of the Federation of Bosnia and Herzegovina and to pass other decisions for implementation of the merger of HT MObilne Ltd to HT Mostar Ltd envisaged in the Agreement with the Government of the Federation of Bosnia and Herzegovina.
 - On the giving the prior approval to the Management Board of HT d.d. for entering into an Agreement on Mutual Termination of the Concession Agreement in the fixed network entered into on September 22, 1999. This decision was recalled and replaced by new one at the SB session held on 12 February 2007. By new decision, the Concession Agreement is not terminated but aligned with the valid Law on Telecommunications.
 - On the giving the prior approval to the Management Board of HT d.d. for the introduction of new Performance Based Management System including the change for bonus system structure (structure of variable part) for Executive Directors and Directors.
- Aside from regular reports of the Management Board of the Company on the results and status of business operations of the Company and joint consultations on business development, the issues below were discussed in more detail, and the Supervisory Board provided respective prior approvals and recommendations:
- Strategic re-invention program - ADSL, IPTV, IP based network, churn prevention, IP business solutions, process & quality, market trends and competition strategy of the Company,
 - Broadband spread, tariff options, cost management programs and strategic project programs, investment planning
 - Regulatory framework: IC rates, LL price, ULL, CPS, regulator's rejection the HT's business packages, WiMax licenses, etc.
 - HR accomplishments and challenges, strategy, plans and activities, headcount development, performance management system
 - The implementation of the Code of Conduct based on S-OX requirement in T-HT Group.
 - The participation of HT's employees in employee survey 2006
 - Corporate Governance and changes in the composition of the Membership of the Management Board as outlined above
 - The acquisition of 100% of outstanding shares of Iskon Internet d.d. at a purchase price of €13.7 m; status and business operations and post merger integration of Iskon Internet
 - Merger of HT MObilne komunikacije d.o.o. Mostar to HT Mostar; the governance structure and decision making principles of merged Company and post merger scenarios;
 - Status of documentation and ownership over HT d.d.'s infrastructure and network, i.e. utilization of DTI, activities of the Croatian Telecommunications Agency, activities of the local self-government units, activities of operators and concessionaires, activities of the international legal expert engaged by shareholders regarding the DTI status.
 - HT's participation in the DTAG's Mid Term Incentive Plan for 2006

- Annual Business Plan for 2007 and Three-Year Strategic Plan 2007 - 2009.
- Scope of activities of the Audit Committee of the Supervisory Board of HT d.d and updates with respect to the S-OX compliance

In 2006, the Audit Committee of the Supervisory Board held 4 sessions and discussed various issues, especially:

- 2005 year end closing of T-HT Group
- 2006 Audit Plan external auditor & New partner Croatia E&Y
- Implementation and effectiveness of internal control over financial reporting according S-OX: SOX 404 project in T-HT & Testing results
- External Auditors Report (quarterly reports, Auditor's Independence, Report on auditor engagement, New accounting and disclosure requirements in 2006, etc.)
- Fraud Report and Risk Reports T-HT
- DT Concept, HT Implementation status of Anti-Fraud Management and AFM Assessment results
- Code of conduct implementation status
- Update & approval of AC Charter and Audit Manual
- Measures monitoring and closing of the remaining activities from 2005
- Audit program 2005/2006 (execution, planning program)
- Supervision over the realization of audit measures and audit reports (fraud management and reporting, IT solutions, Real Estate - facility classification, property registration, network registration, network capacity, business continuity activities, etc.)
- Rights and responsibilities of Audit Committee according to S-OX
- Internal auditing program for 2007.

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

The Management Board within the legal deadlines submitted to the Supervisory Board of the Company the annual financial statements of the Company, and the consolidated annual financial statements of T-HT Group for the business year 2006 together with the audit report, the report on the status of the business operations of T-HT Group and HT d.d., and the draft decision on utilization of the profit realized by the Company during the previous business year.

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

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

According to the opinion of the Management Board, the relationships of affiliated companies in the business (calendar) year 2006 in total, realized by contractual affiliating and other undertaken legal actions, were within the scope of ordinary business and entrepreneurial relationships, standard conditions and the application of regular prices.

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

Report of Independent Accountants

Quote:

We have examined management's assertions, included in the attached Report of the Management Board of HT - Hrvatske telekomunikacije d.d. on the relationships with the governing and affiliated Companies (Related Party Report) for the year ended 31 December 2006. Management is responsible for HT - Hrvatske telekomunikacije d.d.'s ("HT") compliance with requirements of Article 497 of the Croatian Company Law. Our responsibility is to express an opinion on management's assertion about HT's compliance based on our examination. Our examination was conducted in accordance with International Standards on Auditing and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements. In our opinion, management's assertions provided in the Related Party Report for the year ended 31 December 2006 are fairly stated, in all material respects.

This report is intended solely for the information and use of HT and is not intended to be and should not be used by anyone else.

Ernst & Young d.o.o.

Slaven Đuroković

End of quote.

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

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

Results of the examination of annual financial statements and auditor's report, Management Board Report on the status of business operations of T-HT Group and HT d.d. for the business year 2006 and draft decision on utilization of profit

The Supervisory Board issued an order to Ernst & Young, the Company's auditor, for the examination of annual financial statements of the Company and the consolidated financial statements of the T-HT Group for 2006.

The Supervisory Board, after considering the audited financial statements of the Company and the consolidated financial statements of the T-HT Group for 2006, establishes that the Company acted in the year 2006 in accordance with the law, the acts of the Company and the decisions of the General Assembly, and that the annual financial statements were made in line with the situation in the Company's ledgers and that they indicate the correct property and business status of the Company. The Supervisory Board has no objections to the auditor's report on the examination of the annual financial statements of the Company and the consolidated financial statements of the T-HT Group.

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

The Supervisory Board has considered the report on the status of business operations of T-HT Group and HT d.d. for the business year 2006 and has no objections to the delivered report.

The Supervisory Board holds the opinion that the proposal of the Management Board on utilization of the profit realized by HT - Hrvatske

telekomunikacije d.d. in the business year 2006 is in accordance with the business results, is in accordance with the business plan for the current year, protects the shareholders' interests and is in accordance with the positive regulations of the Republic of Croatia.

Therefore, the Supervisory Board gives its approval to the delivered proposal of the Management Board on utilization of profit, i.e. that the part of the net profit from the year 2006 in the amount of HRK 6,861,403.38 is allocated to the legal reserves of the Company, reaching 5% of share capital as prescribed by the Companies Law and after which no allocations from the net income are necessary in the future. A part of the net profit in the amount of HRK 206,942,298.21 is proposed to be distributed for the dividend to the shareholders and the part of the net profit in the amount of HRK 1,862,480,683.84 to be allocated to the retained earnings.

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

The Supervisory Board analyzed the realization of the planned results and the implementation of the basic goals of the Company's business policy for the year 2006.

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

Aside from the financial results for the year 2006, the Supervisory Board considered and approved the Company's business policy for the year 2007.

Pursuant to all of the above, the Supervisory Board will deliver to the General Assembly of the Company this Report on performed supervision of the managing of Company's business operations in 2006.

Michael Guenther
Chairman of the Supervisory Board





The future is already now ■

T-Hrvatski Telekom is committed to remain the most reliable solution for overall customers' communications needs. In this period of preparation for the accession to the EU, we reaffirm our role as key communications driver of overall development of the society. T-HT brings to the Croatian economy and all community segments the advantages of cutting-edge technologies and information technology services tailored to the needs of our market.



The past year 2006 saw an increase of the market competition, i.e. the full establishment of a competitive market. After the regulatory framework had allowed new operators to conduct business in all telecommunications areas in 2005, new service providers entered the fixed telephony segment in 2006 and started expanding their business. The number of providers of mobile telecommunications services remained the same, but market competition intensified in this segment as well, which was particularly reflected through the introduction of new, cheaper tariffs. Apart from the reduction of prices, the liberalization of the market also resulted in a great similarity of basic voice services. Such a development requires additional efforts and special offers to differentiate one operator from the other. The T-HT Group responded to new challenges by adapting to new conditions and by expanding its range of products, while highlighting its technological know-how and the capability of introducing sophisticated services.

Fixed telecommunications

In 2006, the business conditions for the T-HT Group changed substantially: five new providers of telecommunications services started their activities in fixed telephony and thus the fighting for market shares. Thus, at the end of the year, seven operators were active in this segment, while another 12 operators had a license for fixed telephony, however, the latter had not passed the technical inspection of the Croatian Telecommunications Agency by the end of 2006. As a consequence of the market liberalization and intensified competitors' activities in 2006, the T-HT Group market share in fixed telephony fell from 98% to 87% of the total number of users. The leading competitors in fixed telephony in the residential segments continued to grow by providing services via carrier preselection, so that the number of customers using carrier preselection services rose to approximately 228.600. Besides, Vipnet launched a device which simulates fixed network by using a mobile one. Despite a slightly lower market share in 2006, in comparison to the previous year, T-HT's operations in the field of fixed telephony were stable in 2006 due to innovative offers and high quality service.

Mobile telecommunications

The third mobile operator established its position in mobile telephony in 2006 - currently a minor competitor focused on provision of basic services in the low price class. As Vipnet also launched a low-budget mobile telephony service through an alternative brand, price competition in mobile telephony became increasingly fierce. However, the strategy of T-Mobile was to compete by offering high quality and diversity of its services and not to use the price as the main selling point. This was for instance the reason for launching the service web'n'walk, which significantly simplified the Internet access via mobile devices. Consequently, T-Mobile maintained its position as the leading mobile operator also in 2006. Its share in the total number of customers amounted to 49,1% as compared with 52,1% in 2005.

Internet

In the field of Internet access and Internet related services, the T-HT Group increased its leadership in the past year, especially through a rapid expansion of broadband connections whose number exceeded 215.000 at the end of 2006. T-HT's broadband network is a prerequisite for the accelerated launching of new, advanced services in the area of Internet and IP-based services, which will make it possible for the Group to maintain its market leadership in the new regulatory environment and to compensate for partial losses of revenues in traditional telecommunications services. The major innovation in this context was the launch of MAXtv, interactive TV via Internet, for the residential segment. The offer for business customers was enhanced, especially with telephony via Internet and new data transmission services. Besides, the Group enriched its offer of alternative services based on broadband technology through the acquisition of Iskon Internet d.d., especially for the SME segment. In this way, the T-HT Group introduced a new level of service quality and new ways of using advanced technologies tailored the communication requirements of modern urban and business life and left its competitors behind, although the latter also intensified their activities in the field of Internet access and IP based services in 2006.

Some operators started building their own broadband lines to a specific number of business customers and introduced DSL services for residential customers via their own networks. This allowed them to offer - in limited areas - the service of triple play, i.e. a the combination of voice telephony, Internet access and TV via the telephone line or cable.

Services for other providers of telecommunications services (wholesale)

Apart from competition in direct business with customers (retail), in the course of 2006, the competitors also started market competition in the wholesale segment, i.e. providing services to other operators. In the meantime some competitors have built their own networks (of different scopes) mostly fibre optic ones, which mainly cover the centers of the four to five major cities in Croatia. Thus the competitors have created parallel infrastructures enabling them to carry out the wholesale of telecommunications capacities. Besides the operators that deal directly with customers, companies from other industries are also active in wholesale, e.g. Hrvatska elektroprivreda (HEP - Croatian Power Utility) and Hrvatske željeznice (HŽ - Croatian Railways), which have free capacities in their internal telecommunications networks. However, given the fact that the T-HT Group has the largest and the most widely spread network in Croatia, T-HT has remained by far the biggest player in the wholesale market in 2006.

Regulatory Environment

T-HT operates in a fully liberalized telecommunications market environment.

T-HT is an active factor of the telecommunications market liberalization, especially with regard to efforts and considerable resources invested in negotiations with other operators over establishing interconnection and realizing the service of local loop access.

T-HT has established interconnection with all mobile network operators and with most of fixed network operators. In March 2006 the Croatian Telecommunications Agency (CTA) approved new Reference Interconnection Offer of T-HT.

As for access to unbundled local loop, T-HT has concluded contracts with six operators. First local loops were unbundled in September 2006. The price of access for the service of unbundled local loop has not been changed in relation to last year and still amounts to HRK 52.14 whereas the price of shared access has been approved in the amount of HRK 22.37.

The Government of the Republic of Croatia adopted in September 2006, at the proposal of the Ministry of the Sea, Tourism, Transport and Development, National Broadband Strategy and the accompanying Action Plan for implementation of the above strategy. T-HT fully supports efforts of the Government towards stronger development of this market and increasing the number of broadband access users as put forward in the above strategy. The activities stipulated by the Action Plan include creation of conditions for development of free market competition and infrastructure competition, providing support to take-up and development of new broadband technologies, support to development of e-business, reduction of digital divide, contribution to protection of communication privacy and data security etc.

T-HT is a company with strong customer orientation, sensitive to the needs of low income customers. This is why T-HT had proposed and the Agency approved in July 2006, general conditions of T-HT for customer cost control. Cost control has been available to customers since 1 August 2006. T-HT has also put together a new proposal with special tariff packages for socially disadvantaged groups of customers. The above proposal is currently going through the procedure of approval by the Croatian Telecommunications Agency.

T-HT was designated, by CTA's resolutions passed in May and October 2005, as an operator with significant market

power in the markets of public voice telephony, leased lines, interconnection market and in the market for transmission of voice, sound, data, documents, images etc. in the fixed telecommunications network in the territory of the Republic of Croatia. CTA additionally established in September 2006 that T-HT and Iskon Internet have joint significant market power on the relevant market of fixed public telephone network services in the territory of the Republic of Croatia, i.e. public voice services in the territory of the Republic of Croatia and services of transmission of voice, sound, data, documents, images etc. in the fixed telecommunications network in the territory of the Republic of Croatia.

In October 2006 CTA notified all operators that it would assume responsibility for shared use of the erected telecommunications infrastructure, pursuant to Article 22 of the Telecommunications Act. CTA will pass decisions on joint use of the telecommunications infrastructure in cases where the owner of telecommunications refuses to conclude a contract on shared use of the infrastructure with an operator within the legally defined timeframe.

T-HT received in October 2006 a request from the Government of the Republic of Croatia for harmonization of the Concession Agreement with the provisions of the new Telecommunications Act. In support to the process of harmonization, in February 2007 the Government of the Republic of Croatia and T-HT concluded the Agreement on Harmonization of Concession Agreement with valid Telecommunications Act, and the Government of the Republic of Croatia, CTA and T-HT concluded the Agreement on Implementation of the Agreement on Harmonization of Concession Agreement.

T-Mobile, daughter company of T-HT, provides public telecommunications service in the mobile networks of the second (GSM) and third (UMTS) generation in accordance with the signed concession agreements. Additionally, T-Mobile has also a notification for provision of the Internet access services.

T-Mobile has been designated in October 2005 by the CTA's decision as an operator with significant market power on the interconnection market and market of public voice services on the territory of the Republic of Croatia. In November 2006 CTA has initiated the new proceeding for designation of the operator with significant market power on the mentioned markets. As an operator with significant market power on the mentioned markets, T-Mobile has to draft a Reference network access and interconnection offer to be approved by the CTA (last modification to the Reference offer, CTA has mandated in March 2006).

T-Mobile has signed interconnection agreements with other two mobile network operators and with eight fixed network operators.

Customers and their needs are in the focus of all business operations of the T-HT Group. Therefore, customer orientation is the backbone of T-HT's strategy. The goal of the Group is to offer the widest range of fixed and mobile telecommunications services and thus to help every customer to find the service that will suit best his needs.

A socially responsible business operation both towards the employees and towards a wider social community also represents a strategic commitment of T-HT.

The strategy of the Group consists of four modules:

- Focus on customer needs through a wide offer of fixed and mobile telecommunications services
- growth through the development new, advanced services
- optimization of business processes and costs
- permanent education of employees and strengthening of a culture of excellence in services

Focus on customer needs through wide offer of fixed and mobile telecommunications services

The strategy of the T-HT Group is to keep the leading position among the telecommunications companies on the Croatian market, especially through the largest broadband network and widest range of broadband-based services. The comparative advantages of the T-HT Group include the possibility to provide all types of telecommunications services, many years of experience, deep technical knowledge and modern networks. This is why T-HT has the ideal conditions to provide integrated telecommunications packages consisting of two or more several telecommunications services such as transmission of voice, data, audio and video recordings as well as Internet access via fixed or mobile network. The goal of the T-HT Group strategy is to offer one-stop-shop user friendly telecommunications services to all residential and business customers. When it comes to residential customers, in the first place, it is about the quick access to contents via Internet, while business customers are mostly interested in a good price / quality-ratio, integrated voice and data services and in support when switching to e-business.

Growth through the development of new, advanced services

By developing and early launching new, advanced services, the T-HT Group strives to achieve growth through technological leadership. The T-HT Group's intent is to deliver cutting-edge devices and program solutions in telecommunications and related industries (e.g., information technology) to its customers and in this way, to increase the usage of advanced services in the private and business environment. The acquisition of Iskon Internet d.d. and the accelerated introduction of services based on modern technologies, especially the expansion of broadband connections and IP-based services, are to be seen in this context as some of the key strategic moves of the T-HT Group in 2006.

Acquisition of Iskon Internet d.d.

The acquisition, which took place at the end of May 2006, brought an experienced team of engineers, technicians, marketing and sales experts to T-HT. Over the last six years, Iskon Internet d.d. has established itself as the largest alternative Internet service provider, provider of data transmission, private networks and web hosting for SME. Within the T-HT Group, Iskon develops alternative telecommunications services based on broadband technology. It operates as an independent company with its own management board and with the business policy of an innovative and adaptable operator and covers the growing segment of customers who prefer alternative products.

Accelerated expansion of broadband connections

In 2006, T-Com exceeded its plan of broadband expansion and more than doubled the numbers of broadband lines - from 101.300 to 215.473. At the end of 2006, it was also still the only operator in the Republic of Croatia to offer broadband on a large scale across the country. Broadband connections provide a basis for offering technologically advanced services such as TV and video on demand via Internet, teleworking, IP virtual private networks etc. Through the broadband expansion, T-Com has established the infrastructure it needs to provide Croatian homes and companies with up-to-date telecommunications services in the coming years, and by doing so to significantly improve the business customers operations and the way, in which residential customers will access video, audio and film recordings, correspond and interconnect with each other. Thus T-Com will also largely contribute to the goals of the Government of the Republic of Croatia regarding the accelerated creation of an information society in Croatia.

Croatia as one of the first countries in Europe to offer IPTV

T-Com is one of the first operators in Europe to offer IPTV to its customers with broadband connections. In September 2006, T-Com launched MAXtv, interactive television via Internet, which allows customers to watch more than 50 local and foreign channels within the basic package, as well as additional channels at an additional charge. MAXtv also includes Video rentals via the Internet (more than 500 films). With MAXtv, T-Com has confirmed its capability of introducing modern and demanding technologies and introduced a new era of telecommunications in Croatia.

Three other important advanced services, which T-HT Group members started offering to their customers in 2006, are: (1) NetPhone, telephony via Internet protocol, (2) lower-speeds Metro-Ethernet for SME, (3) „web'n'walk - Internet on the Move” service of T-Mobile: simplified Internet access via mobile devices.

As for the operations in Bosnia and Herzegovina, all necessary activities were taken to secure the Group's 39.1% ownership interest, as of 1st January 2007, in the company Hrvatske telekomunikacije d.o.o. Mostar, which in the meantime integrated its fixed and mobile business by merging with the company HT Mobilne komunikacije d.o.o. Mostar. In this way, T-HT created a base for its expansion on the market of Bosnia and Herzegovina, which was liberalized in 2006 and which, given the current low level of development of the telecommunications sector in Bosnia and Herzegovina is expected to grow at about the same rates as the Croatian telecommunications market between 2000 and 2006.

Optimization of business processes and costs

In order to retain the leading position in a competitive market, facing increased competition and pressure on prices, the T-HT Group has initiated the processes of optimization of business processes and costs. The optimization of operational costs, which is achieved through a rational use of the company's resources in a prudent manner, is one business person, is one of the major strategic measures aimed at preserving the Company's competitive edge and high market posi-

tion, and thus the shareholders' interest and the employees' personal prosperity. The T-HT Group reported progress in cost efficiency in 2006. However, the strategic goal of the Company in this segment is to reach the level of the best European companies.

Permanent education of the employees and strengthening of a culture of excellence in services

The telecommunications industry is subject to dynamic technological changes and constant market challenges. Since it recognises that knowledge rapidly becomes obsolete, the T-HT Group invests into the education and the training of its employees as the Company's greatest asset. Strengthening the corporate culture, which sees the customer as the focus of all business activities, also highlights the key competencies of the Company: striving to achieve the best results in a competitive environment, initiative, service excellence and total commitment to providing the best services to customers.

Socially responsible business operations

The T-HT Group is aware of the fact that being one of the biggest market players it does not only spur its own growth, but also the growth of the whole telecommunications sector, which is one of the key industries in terms of development of the Croatian economy. The contribution of the T-HT Group to this development is especially reflected in the construction of the broadband infrastructure as a prerequisite for a faster informatization of Croatia. Given its size, the Group is also one of the largest employers in Croatia. This is why decisions of the T-HT Group not only take into account the principles of sustainable business, customer orientation and the owner's expectations, but also its responsibility towards the employees, environment and the society as a whole.

The organization of the Company is based on division into corporate and business functions. Therewith, through corporate units, it is provided for the integration of business segments of the Company into an integral corporation that, using all the advantages of synergy, has a single approach to the market as the only provider of all telecommunication services in Croatia. At the same time, through functions of business units, it is provided for the orientation to individual products and services, and therewith also to strengthening their position on the competitive market.

Four Corporate Units exist within the Company - having a function of integration of business and management of entire Company: CEO Corporate Unit, Financial Corporate Unit, Group Services Corporate Unit and Human Resources Corporate Unit.

These functions ensure that all business segments of the Company are adjusted and that the Company can operate as one entity. In addition, all stated Corporate Units are focused on securing the value of, as well as on initiating the new value for, the entire Company.

T-HT has two Business Units:

■ **Business Unit for Fixed Network and Broadband Operation (T-Com)**, organized within HT-Hrvatske telekomunikacije d.d. as "virtual company". In accordance with the organizational structure, the fixed network, broadband, data network and on-line services, which for a year has been under the umbrella brand of T-Com, has formally become part of a unique and functionally organized Business Unit within the Company, ready to react swiftly to the demands and expectations of customers. T-Com is headed by an Executive Committee consisting of the Chief Executive Officer of T-Com (also T-HT's Management Board member and COO of T-Com's fixed network and broadband) and 5 members of the Executive Committee of T-Com responsible for sales, finance, marketing, network and human resources. All current regional activities of the Company in the new organization are part of T-Com. Regional activities are organized through the regional sales/regional management department, regional network department, and regional finance department. Segments of T-Com business are organized in T-Com Management Units and are managed by the respective member of the T-Com Executive Board.

■ **Business Unit for Mobile Communications Operation (T-Mobile)**, a separate legal entity organized as a limited liability company one hundred percent owned by T-HT. T-Mobile as a Business Unit is managed by the Management Board of T-Mobile. Member of the Management Board and Chief Operating Officer (COO T-Mobile) of the Company is by virtue of his/her function President of the Management Board and CEO of T-Mobile. Apart from the President, the T-Mobile Management Board has five other members who are responsible for finance, network, marketing, sales & services, and human resources. Segments of the T-Mobile business are organized in T-Mobile Management Units and are managed by the respective member of the T-Mobile Management Board.





In Croatian homes ■

Internet broadband access is one of the prerequisites for the acquisition of knowledge, progress and competitiveness of every individual and the society as a whole. T-Com is the leader in fixed telephony and broadband market and our goal is to be perceived by customers as the preferred partner to meet their communication needs. We have the infrastructure, are present in all Croatian homes and launch new services. We offer to customers the services of one-stop shop through a wide network of sales channels. It is a stimulating challenge to address specific needs of every single customer.

Overview

The Croatian telecommunications market also developed dynamically throughout 2006. The situation and main developments on the telecommunications market:

- On Croatian telecommunications market, there are 20 national operators with a concession for fixed telephony. The initial price for a fixed telephony license was reduced from HRK 40 million to HRK 8 million at the end of 2004, and it was further reduced to the current price of HRK 20,000 at the beginning of 2005.
- National fixed telephony operators offer their services to residential customers through 25 different user packages with different characteristics (1 second billing unit, free call minutes within the national fixed network included in the monthly subscription fee, call establishment fee, different prices of the monthly subscription fee, as well as different prices of a call minute, different peak and off-peak prices) and additional tariff options.
- The Croatian telecom agency has awarded nine operators with the WiMax licence for 11 regions (4 for T-Com). T-Com has developed its own WiMax network in two regions and became one of two operators with an operational WiMax in 2006.
- The habits of fixed telephony customers have not significantly changed in comparison with previous years (T-Com has not changed its prices).

Trends, which determined market movements during the last year, are listed below:

- General fall of prices of telephone calls and reduced prices of fixed telephony calls
- Fall of traffic: according to the figures of the Croatian Central Bureau of Statistics, in the first nine months of 2006, Croatian fixed network customers spent 6.45 billion minutes, which is 13.6% less than in the same period last year. The majority of calls were local calls (within Croatia) - amounting to 97.7 % of all calls, while 146 million minutes were spent on international calls, which is 11.5 % less than in the same period last year.
- Entry of mobile operators in fixed telephony, most notably Vipnet, which offered a replacement for the traditional fixed telephony line.
- Doubling number of ADSL users and development of new services relating to broadband, above all IPTV which T-Com had launched as the first one within DT Group.
- New innovative services and tariff models were launched, both in fixed telephony and broadband.

Major achievements in 2006

Fixed telephony

T-Com continued to hold its leading market position with more than 1,630,000 fixed telephony customers and 215,000 ADSL customers. At the end of 2006, the total number of connections amounted to 1,646,640 analogue and digital lines (POTS, FGSM and ISDN), which of 85% were private and 15% were business lines. The trend of redirecting customers to more advanced services is reflected in the success of ADSL.

T-Com number of connections	2006	2005	2004
POTS	1,513,892	1,534,113	1,542,070
FGSM	7,545	7,534	7,114
Total POTS connections	1,521,437	1,541,647	1,549,184
ISDN BRA connections	122,641	130,183	124,342
ISDN PRA connections	2,562	3,179	2,956
Total ISDN connections	125,203	133,362	127,298
Total connections POTS+ISDN+FGSM	1,646,640	1,675,009	1,676,482
ADSL	215,473	101,300	22,356

The revenue generated from traditional voice services amounted to HRK 3,561 million, which represents a 10.3% decline in comparison with the previous year. The main cause for this lies in the entry and activities of new competitors and the general fall of traffic in the fixed network. The number of POTS connections fell by 1.3%, while the number of total ISDN connections fell by 6.11%.

The number of ADSL connections increased by nearly 100% in comparison to 2005, and continues to grow (215,473 customers). Residential customers account for 76.8% and business customers account for 23.2% of the total revenue generated in fixed telephony.

Network

An increase in the number of broadband subscribers from 101.300 to 215.473 in 2006 was achieved through a good management of processes related to capacities' expansion on the locations where MAXdsl is available. The availability of the MAXdsl service in rural areas was also increased. At the end of 2006, there were 858 locations with MAXdsl availability, which facilitated the provision of broadband services based on the DSL technology to more than 80% basic service subscribers.

T-Com number of lines	2006	2005
X.25	1,405	1,272
Manageable leased lines	356	395
Unmanageable leased lines	2,863	3,325
Frame Relay	3,130	3,038
ATM	28	38
Metro Ethernet	83	0
Total	7,865	8,068

The broadband Internet access was enriched with the offer of data and multi-media services, MAXtv being the most demanding in terms of traffic. Six fibre optic systems were built with a 320 Gbit/s maximum transmission capacity, each in order to meet increased traffic requirements, which will serve as a basis for the expansion of IP backbone capacities over the coming years. These systems, which are based on DWDM technology, connect regional centres with the required redundancy.

The provision of voice services via fully digitalized network in the segment of interconnection with other operators and of value added services has been improved by adding another intelligent IN node. In order to increase the quality of provision of voice services, about ten major access nodes of the generation RSS83 were replaced, what ensured resources for maintenance requirements. The international and transit level of telephone exchanges was raised to a higher application level.

The solution MEGAPLAN, which is unique at the level of the DT Group, was chosen for the purpose of documentation and planning of the access network; a number of activities were initiated regarding the implementation of the program solution, survey and digitalization of the existing access network documentation.

Data services

Revenues from data services amounted to HRK 209 million in 2006, what represents a 4% increase in comparison with 2005 (including revenues from wholesale and lease of equipment). An increase of revenues was recorded with national leased lines, X.25 and with ATM services. In May 2006, the new service Metro Ethernet was introduced, which reached the figure of 83 connection points by the end of the year and contributed to the total revenue with HRK 1,072 thousand.

Internet

According to the results of a survey conducted in July 2006 by the agency GfK, 35% of the population over 15 years of age, i.e. more than 1.3 million Croats, use Internet at least once a month.

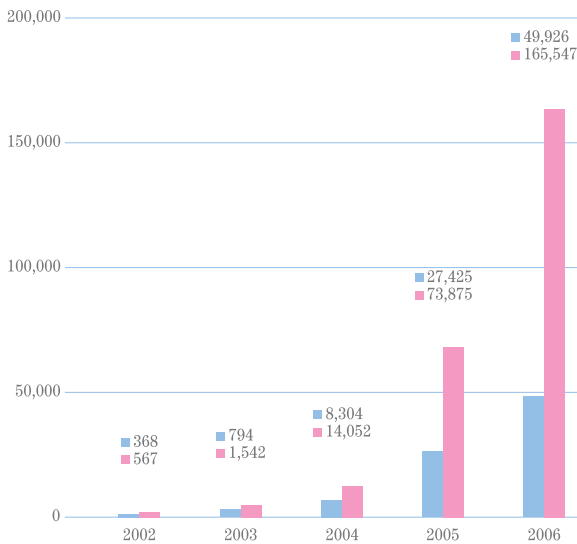
Currently, there are about 30 licensed providers of Internet services, along with more than 20 cable TV providers. The above given figure increased in comparison to 2005 due to licenses awarded to new entrants in the fixed telephony market. T-Com has the leading position among Internet providers with a 68% market share.

The Croatian market of Internet access services has dramatically changed over the last 3 years. Despite a continuous growth, the Internet penetration in Croatia is still rather low. The broadband technology is slowly gaining ground with 5% ADSL customers.

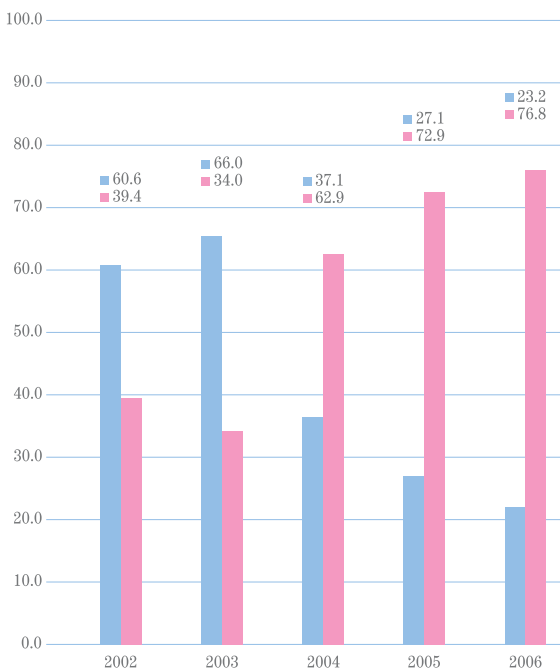
In 2006, Croatian users of dial up access spent a total of 3.15 billion minutes, which is 24.6% less than in 2005. The main reason for the above decline lies in increased use of the ADSL service.

Monthly average for used dial-up minutes in 2006 amounted to 262.6 million as compared with 348.1 million in 2005.

T-Com ADSL users VII 2002-XII 2006



T-Com structure ADSL users VII 2002 - XII 2006



ADSL

At the end of 2004, T-Com had 22,000 ADSL customers, what represented a significant increase of 957% as compared with 2003. At the end of 2005, the figure rose to 100,000 customers, which was 5 times higher than in 2004, while at the end of 2006, the figure stood at 215,500 ADSL customers with MAXadsl packages.

IP/Internet revenues amount to HRK 467 million in 2006, what is a 30% increase as compared with the revenue generated in 2005.

The number of customers accessing the Internet via fixed line declined by 11%, whereas the number of accesses via VPN increased by 74%.

One of the basic elements of T-Com's strategy is the development of broadband access to the Internet. In 2006, a lot of effort has been put into marketing activities that promote the service in question and thus managed to retain the leading market position among Croatian providers of Internet services (IP) while facing constant technical innovations and constant pressure from the competitors.

The impressive number of MAXadsl customers was achieved through constant creation of attractive offers on one hand, and by enriching the multimedia Internet content on the other. On several occasions during the year, customers were offered market benefits, such as more favourable prices of connection, installation and modems, or promotional periods of free surfing. All offers were presented in educational TV and radio commercials, which helped to accelerate the growth in the number of users of very fast Internet. In communication with customers in 2006, special importance was attached to the customer segmentation and the identification of specific customer needs. Targeted direct postal offers provided customers with customized Internet packages. The year was also marked by follow-up actions aimed at the retention of existing MAXadsl customers.

T-Portal

The T-Portal, which has more than thirty columns and online services, is primarily intended for all Croatian and English speaking Internet users. Most visitors, approximately 76%, are Croatian citizens, while the remaining 24% access the T-Portal from other parts of the world. Contents, which are created daily - with around two hundred articles and topic units on average - are used by the broadest population of Internet users. Both children and retired people can find

plenty of interesting informative, educational and entertaining contents, while the majority of content is intended for the public aged between 15 and 55, which make up the largest part of the entire population of portal visitors.

In 2005, the T-Portal had 1,430,000 visitors per month on average, making 6,495,000 visits, while in 2006, the number increased to 1,770,000 visitors or 8,307,000 visits per month. The T-Portal provides its users with the access to a number of different Internet services and sources of content including Internet daily news magazine, information centre, web e-mail, Internet forum, chat, web, calendar, online address book and notes, planner, content search service, web directory, telephone directory, digital city maps, digital greeting cards and postcards, classified adds, online auctions, job search service, matchmaking, online shopping centre with Payway online service of credit card authorization, online gaming platform, portal for video content exclusively, blog service for the creation of blogs, photo galleries for storing one's own photos, service for creation of web pages, music downloads - the first legal service for downloading music and daily news magazine in English. Next to this, the T-Portal also offers an e-learning (virtual learning) service and testing of IT knowledge and the column "Klinci" (one of a kind in Croatia). T-Portal contents are available on PDA, mobile devices, SMS info, MMS info and T-Mobile's wap portal. T-Portal also covers large projects on special pages e.g. Big Brother 3 (video streaming), Football World Cup (with the service of following the games online), KulTurst etc.

Wholesale

During 2006 domestic market saw significant growth of revenues from wholesale. On the other hand, the entry of competitors in the domestic market caused significant reduction of margins and consequently reduction of revenues in international wholesale.

Domestic Market

In the course of 2006 another 3 interconnection contracts were signed with new fixed network operators in the Croatian market. Only 5 operators opted for T-Com's CPS service, whereas other operators were more focused on direct access to customers by building their own networks - through lease of lines, local loop or infrastructure (DTI) from T-Com and by building their own infrastructure independent of T-Com. Regulatory segment saw changes of the Reference Interconnection Offer (RIO), especially in the segment of definition of traffic termination service, treatment of port costs, IC lines, testing, financial guarantees etc.

T-Com accesses to Internet	2006	2005
Dial-up customers	626,134	600,196
Internet access through fixed line	419	471
ADSL user accounts	229,931	108,376
Total	856,484	709,043
Access points	2006	2005
VPN	780	449

Market liberalization in the segment of access network, realized through local loop unbundling, was in the spotlight in 2006. In the course of 2006 T-Com signed six contracts on access to unbundled local loop, based on which operators were provided with 75 collocation rooms by the end of the year. Towards the end of 2006 two operators started to commercially offer services based on access to unbundled local loop. By the end of 2006 operators could use 709 unbundled local loops. As for the regulatory segment, changes were made in the Reference Unbundling Offer (RUO) towards the end of the year, which was an effort of the Croatian Telecommunications Agency (CTA) to take into consideration operators' requests. The above changes place new challenges on T-Com and also include introduction of the new service of shared access.

Development and liberalization of the fixed telephony market, as well as some decisions of the CTA made in this respect and the mode of regulation of the mobile telephony market through standard offers, initiated redefinition of the existing conditions of interconnection between T-Com and mobile operators. New interconnection conditions have been applied since 1 January 2007.

As for retail broadband services (MAXadsl) the number of customers who get broadband access by using the wholesale service of ADSL transport increased. The number of customers connected to broadband platforms of other operators through T-Com's access line reached 5% of the total number of ADSL users. General Conditions of ADSL Transport were corrected in 2006 with regard to the model of traffic billing. This service was used by 7 operators in 2006.

In the market of capacities the entry of new competitors offering lower prices than T-Com reduced the margin in this segment.

International Market

International telephone calls to the Republic of Croatia and the neighboring countries still account for 85% of revenues from international wholesale business. Intense connection of national operators with the international

ones led to an accelerated decrease in the prices of call termination in Croatia. T-Com made attempts to compensate for the decrease by expanding the market and connecting with new operators in the neighboring countries, so that, with seven new interconnections, the number of direct international telephone interconnections increased to 35, which additionally improved the competitive edge on the regional market, decreased costs and generated revenues from international transit.

Establishment of a PoP in Frankfurt in 2006 had a multiple positive impact on international business activities:

- considerably reduced costs of telephone interconnection (IC);
- increased flexibility and competitiveness on the international telephone and data market;
- substantially reduced purchase price of global IP transit services from the leading world and European IP operators, which led to an increase of T-Com's competitiveness on national and neighboring markets.

Owing to this, T-Com managed to increase the volume and the number of partners through increased sales, in spite of 50% drop in prices on the regional IP market, and thus increase the revenue from international IP services by 30% in relation to 2005 (most notably on the B&H market and the Montenegrin market).

As a precondition for the afore-mentioned business results from international business activities, apart from extending the existing telecommunications border crossings, four new ones were established with alternative operators in Slovenia and B&H.

Revenues

Wholesale revenues represent an increasingly important business segment and account for approximately 19% of total T-Com's revenues. The total revenues of the wholesale segment post significant increase of 15.1% in relation to 2005, mostly as a result of market liberalization, entry of new operators and introduction of new services.

Significant revenue growth was realized in the wholesale segment for national operators in the total amount of 40% in relation to 2005. Following the deregulation of the telecommunications market, the revenue from interconnection (IC revenue) increased by 519% as compared with the previous year. Since revenue growth in the wholesale segment from new fixed operators has contrary effects in the retail segment and since the provision of services to national operators is a regulatory obligation, it seems more important to mention the growth of revenues from ADSL transport and global internet access (GIA), which posted total growth of 111%.

Mobile operators still hold the largest share of revenues in T-Com wholesale (40%). Their revenues increased in relation to the previous year mostly due to changes in the behavior of customers, fixed to mobile substitution and entry of the third mobile operator. Fixed operators increase their share in T-Com's total revenues from wholesale in proportion with the increase in the number of CPS customers, which in turn leads to an increase in IC traffic.

Products and services

In order to meet the needs of fixed telephony customers and to retain its customers, in the course of 2006, T-Com offered a number of additional services (call back, voice mail, WebBill), tariff options (Non Stop) and special offers aimed at the retention of customers relating to new connections (telephone connection for 1 kuna) and switching to super packages (the offer Super 150) with the extension of contract obligation.

The existing ISDN users were offered, through direct mail, telephone exchange Fritz!X UBS for only one kuna and with a 12-month contract obligation stipulating the use of ISDN services. The action received an excellent response rate.

A significant number of ADSL users were attracted thanks to a number of actions and campaigns on this service, e.g. prizes for new customers (Volim nogomet (I Like FooTball), MAXadsl+PCoffer, MAXadsl MGM), retention of existing customers with contract obligation (MAXadsl MP3) and introduction of new tariff packages. MAXtv - a new generation of interactive television, which T-Com had launched as the first one within the DT Group, was presented within the promotion and the upgrade of the MAXadsl service on 21st September 2006. The viewers of MAXtv can watch channels of more than 50 national and international TV stations. The viewers of MAXtv can also enjoy, apart of all national and regional television channels in Croatia, in channels of prominent TV houses from the neighbouring countries (Slovenia, Bosnia and Herzegovina, Montenegro, and Serbia), specialized music channels (MTV Adria, Balkanmedia TV, CMC and Viva), channels broadcasting only news, cartoons, sports, fashion and entertainment events, documentaries or soaps (ESPN Classic, Extreme Sports Channel, National Geographic Channel, BBC World, Romantica, Fashion TV Europe, CNBC Europe, CNN, Jetix, Discovery Channel Europe, Animal Planet, Reality TV), and a number of other channels. MAXtv viewers also have access to

a digital video library containing more than 500 titles of different genres out of the national and international production: movies, animated films, series and documentaries, production for children, and entertainment for adults.

In the course of 2006, T-Portal launched MAXzona, the first Croatian broadband portal with unprecedented multimedia contents. Besides the repeated successful multimedia online coverage of the Croatian issue of Big Brother, a number of marketing actions contributed to the mounting popularity of the T-Portal, e.g. "100 seconds of glory" and "HumaniTarka". T-Portal services were advertised and promoted e.g. shopping, show biz, sp 2006 (World Cup), maxtportal.hr, as well as the Advertisement Section on T-Portal. 2006 also saw the launch of Fonoteka (music downloads), as part of the existing T-Portal web site.

The promotion of the credit card T American Express was continued in 2006. The goal of promotional actions is to increase customers' loyalty through savings on their telephone bills.

T-Com's 45 T-Centres located throughout Croatia are in direct contact with customers who can experience in person the high level of quality of T-HT's products and services. A QMS (queue management system) was installed in 13 T-Centres in 2006 for the purpose of their evaluation and efficiency

improvement. Another 13 points of sale were refurbished in the course of 2006 (beside 20 POS that had been refurbished in 2005). In this way, we wanted to show that we are a modern, dynamic telecommunications company and promote the T-Com brand. Their sales premises were divided into the T-Com Zone, the T-Mobile Zone, the MAXtv Zone, the Surfing Zone and the HOT Zone and a counter for business customers, where customers can directly contact the Customer Care. The number of visitors at T-Com's points of sale is constantly growing. In order to bring its products and services closer to customers, T-Com started special marketing activities with some of its indirect partners, called T-Partners. With the aim of improving the quality of services provided by T-Com Partners, in 2005, their number was reduced from 185 to 72. They continue to be the most important sales channel.

An additional step in customer relations was made in the field of fixed telephony safety. T-Com introduced the protection of international calls from diallers and other forms of abuse and communicated it to customers as "Secure Connection to the World". On 1st August 2006, T-Com launched a new service - Bill limit for additional control of expenses.

As for the improvement of T-Com Customer Service, there were strong activities in the area of incoming and outgoing calls aimed at the retention of customers, the prevention of churn to competitors, telesales, improved collection etc. In 2006, the Customer Care service on 0800 numbers answered more than 3,800,000 incoming calls.

Everything is on the move ■

More than two million customers have opted for T-Mobile Croatia as their provider of mobile communications services. Meeting customers' needs is the ultimate goal for T-Mobile, i.e. to provide cutting-edge technologies and services in parallel with leading global trends. Committed customer service and a number of points of sale throughout Croatia make it possible for us to serve our customers, who are always our priority, individually, and to make our services easily accessible to them. Our key advantages are also a wide range of products and innovative services we offer and high quality network rated by customers as the best in Croatia.





Overview

2006 was a successful year for T-Mobile Croatia LLC. (hereinafter: T-Mobile or the Company), in which we:

- Confirmed the overall market leadership in the increasingly competitive Croatian mobile communications market
- Served more than 2 million customers
- Increased community aspect through innovative offers fulfilling different segments' needs
- Proved the leading position in the business segment
- Invested in state-of-the-art technologies (UMTS, EDGE and HSDPA functionality) and services and enhanced quality and network coverage

T-Mobile serves more than 550,000 (2005:400.000) postpaid customers and more than 1,600,000 (2005: 1,500,000) prepaid customers. With the SIM market share of 49,1 %*in 2006 (2005: 52,1 %), the Company sustained its leading position in the competitive Croatian environment, confirming thus once again the successful meeting of the expectations of its customers.

In 2006, T-Mobile reached more than 2 million customers. T-Mobile launched many successful services and earned the title of the no.1 network coverage and quality by customers. T-Mobile moved forward in recognizing customers' needs and bringing people and things that matter to them simply closer.

T-Mobile thus upgraded the postpaid tariff packages according to customers' feedback, which include all services in the money bundle (voice calls, SMS, MMS, data transfer, international and roaming calls), what makes this offer unique on the market. With the new concept of the Flex Team - offer for the VSE/SME segments and with a new set of VPN tariffs, T-Mobile proved its leading position in the business segment.

In the promotional period from June till the end of December, T-Mobile launched the option Unlimited, which provided our prepaid and postpaid customers with the simple communication with more than 2 million T-Mobile customers at favourable prices. By introducing the service web 'n' walk, all postpaid T-Mobile customers are offered an easy Internet and e-mail access, always and everywhere. Continuing building relationship with customers, throughout the year, T-Mobile made a series of direct contacts to its valuable customers consulting on offers that meet individual needs.

T-Mobile has additionally reviewed the customer touch-point process bringing simplicity and convenience to our interaction with customers. A new visual identity and the claim „Simply closer” was introduced and additionally improved with the T-Mobile brand positioning on the market.

During 2006, T-Mobile continued to build and upgrade the network and by the end of the year, 1.437 GSM and 328 UMTS locations were operational.

In December, the company enabled the HSDPA functionality, an upgrade of the UMTS system performances, providing high speed data services, among others as a prerequisite for the development of new services.

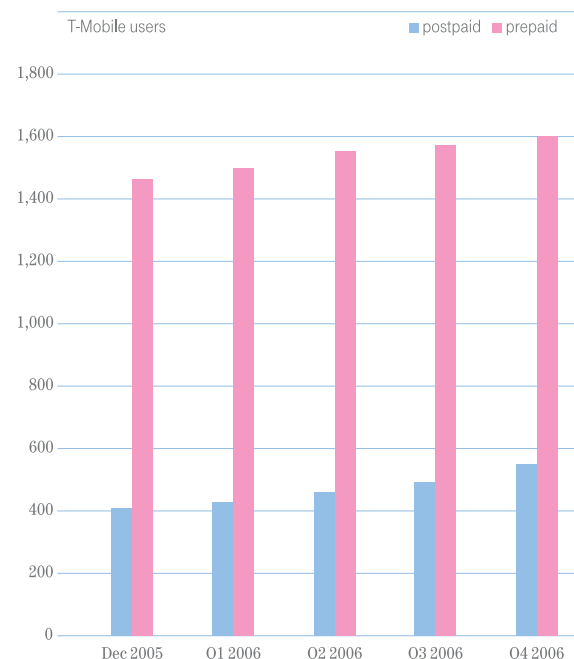
Major achievements in 2006

Confirmation of leading position on mobile market

During 2006, mobile penetration in the Republic of Croatia increased from 82,4% at the end of 2005 to 97,7%* at the end of 2006.

During 2006, we have seen some changes in the market - the probably biggest one is the launch of an alternative sub-brand Tomato by Vipnet. Additionally, Mobile Number Portability was introduced to the market. Within this market development, T-Mobile maintained its leadership position on the Croatian mobile market, reaching 49,1% of the SIM market share, despite increased competition. As a result of targeted actions, the share of postpaid in the total customer base rose from 21,9% to 25,7% in the period of one year.

*Company estimated data based on available informations



All efforts to improve the customer interaction resulted in increasing the customer base and the customer's loyalty in 2006, as well as increasing the customer satisfaction and the establishment of effective win-back measures.

Additionally, the usage of voice services was by 41,9% higher than in 2005. In the field of data usage, there was an increase in 2006 in comparison to 2005, too: The SMS usage increased by 4%, the MMS usage increased by 60% and the GPRS usage increased by 373%.

Market developments

During the year, T-Mobile offered a whole spectrum of new services, which were created to fulfil the needs of all segments of customers.

Among others, major achievements were:

- New set of postpaid tariffs where roaming was for the first time on Croatian market included in the bundle - thus creating first all-in bundle on the market. These Flex tariffs were designed to address customer needs to have all services covered by one bundle of their choosing. This offer significantly contributed to an overall increase in T-Mobile's customer base
- A new concept of Flex Team was introduced along with Flex bundles. This offer targets small business customers, offering them all-in bundles as well.
- A new set of VPN tariffs was launched in March 2006. These tariffs were designed to offer the most to business customers depending on their size and their needs. Thanks to these tariffs, we have significantly increased the number of business customers.
- A new concept of free on-net calling was introduced with Option Unlimited for the first time on the Croatian market. This offer was initially offered to our postpaid customers from June 2006, and was expanded to our prepaid customers in October 2006. Along with the Option Unlimited, we offer a set of options that are available to postpaid customers depending on their needs: Option Messages (free SMS and/or MMS messages with a small monthly fee), the Option web'n'walk (open Internet access for a small monthly fee), the Option Lucky 7 (set of favourite numbers with preferential prices, not limited to our network).
- HSDPA was commercially launched in December 2006, allowing customers to utilize greater speed in downloading content from the Internet.

Sales and Services developments:

Although the penetration rate on the SIM market was very high, Sales still managed to improve sales results. But even more important, T-Mobile has had excellent achievements in the field of customer related processes and in bringing our services closer to the customers.

Major achievements are:

- Introduction of several new sales channels
 - "Home delivery" sales channel offering prepaid products directly to "your home"
 - T-Mobile Truck travelling throughout the country promoting postpaid and prepaid services but also used for popular events sponsored by T-Mobile
 - Telesales Channel for VSE segment and consumer customers
- Introduction of electronic vouchers in T-Mobile shops and Croatian Lottery
- Business customer satisfaction improved in all Business segments keeping the leading position on the market.
- Good acquisition and retention results in the VSE segment, supported by quality improvement of Business corners in T-Mobile shops and T-Centres and of the Direct sales force channel
- Introduction of Customer Caller System and Mobile advisors, what significantly improved the customer satisfaction and enhanced the process flows at the points of sales
- Differentiation from the competitors at the point of sales: introduction of internet spots, kids corners, newspapers, coffee and water machines, prolonged working hours
- Reallocation of T-Mobile shop in Rijeka to the new location in shopping centre „Tower Centar Rijeka" and opening of 2nd Premium partner shop in Rijeka
- Signing the new Service Level Agreement with Premium and Standard partners, what additionally improved the T-Mobile service quality, increased the brand perception, visibility, after sales process and sales results
- Implementation of technical corners in shops for assistance with mobile phone usage
- Corporate Sales channel (SME/LE/CE) sales results improved through the segmented market approach, regional distribution and new VPN tariffs
- Successful adaptation to new market conditions (introduction of Public Tenders) with more than 50 public tenders closed at a 80% success rate
- Interactive voice response (IVR) functionality implemented for Postpaid account balance and Postpaid & Prepaid +club points

Technical Business Area developments

In order to achieve all mentioned results, to cope with a significant increase of traffic and of the number of users, during 2006, we have continued to build our radio access network, ending the year with 1.437 GSM and 328 UMTS locations on-air, respectively increasing the total radio access network capacity (GSM RAN capacity increased for 20%). At the same time, the radio access network has been upgraded to an up to date software revision that enables advanced functionalities and the implementation of services based on broadband access. Additional capacities required for the core network were installed, together with the needed software upgrades.

In order to ensure technical pre-requisites for the development of new services, we have enabled the HSDPA functionality on national level, as upgrade of UMTS system performances, providing high speed data services, we have implemented the Real Time Service Platform for prepaid and postpaid customers, the ICA Intelligent Call Assistant functionality, HPOV and data transfer online charging for prepaid users.

In the IT domain, we have continued with the implementation of systems, which have increased the operational efficiency of the Company and created the prerequisites for further improvements of key business processes, especially those related to the customers. In that sense, we have continued with the development of the Data Warehouse System, implemented the SAP IS-T system, for management of accounts receivables and the first phase of a CRM system.

In order to improve internal procedures and cross functional business processes in the domain of investments, we have implemented the SAP PS module that supports network planning and development, and finalized the SAP SNT (Serial Number Tracking) project.

In order to come closer to our customers, to ensure the provision of services of their choice, the technical implementation of innovative offers and new solutions for all key users segments have been made (Flex tariffs, option Unlimited, web'n'walk, Long call, BlackBerry Instant mail, etc.), which have additionally strengthened the position of T-Mobile as leading operator on the market.

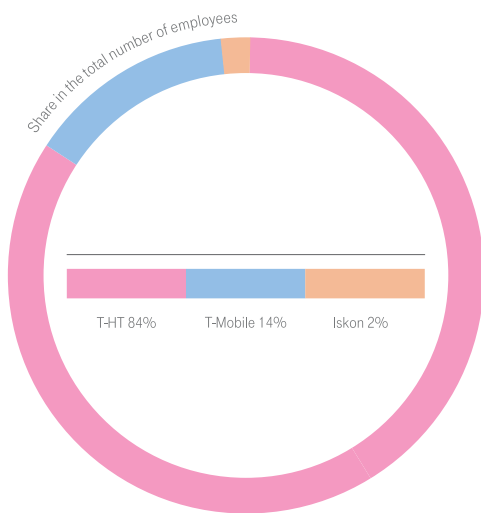
Following the Regulatory obligations, we have enabled Mobile Number Portability with commercial launch on 1st of October 2006. In 2006, we have also fulfilled the requests from the UMTS concession agreement.

To be fully able to monitor and conduct measurements of new services and technologies, we have introduced new monitoring and measuring systems.

We also put a lot of effort in assuring the improvements of network maintenance resulting in improved network and service availability rates together with cost efficiency. To improve the management of existing assets, a new Assets Management system has been established and cross checked with the SAP AA database resulting in an efficient asset inventory process.

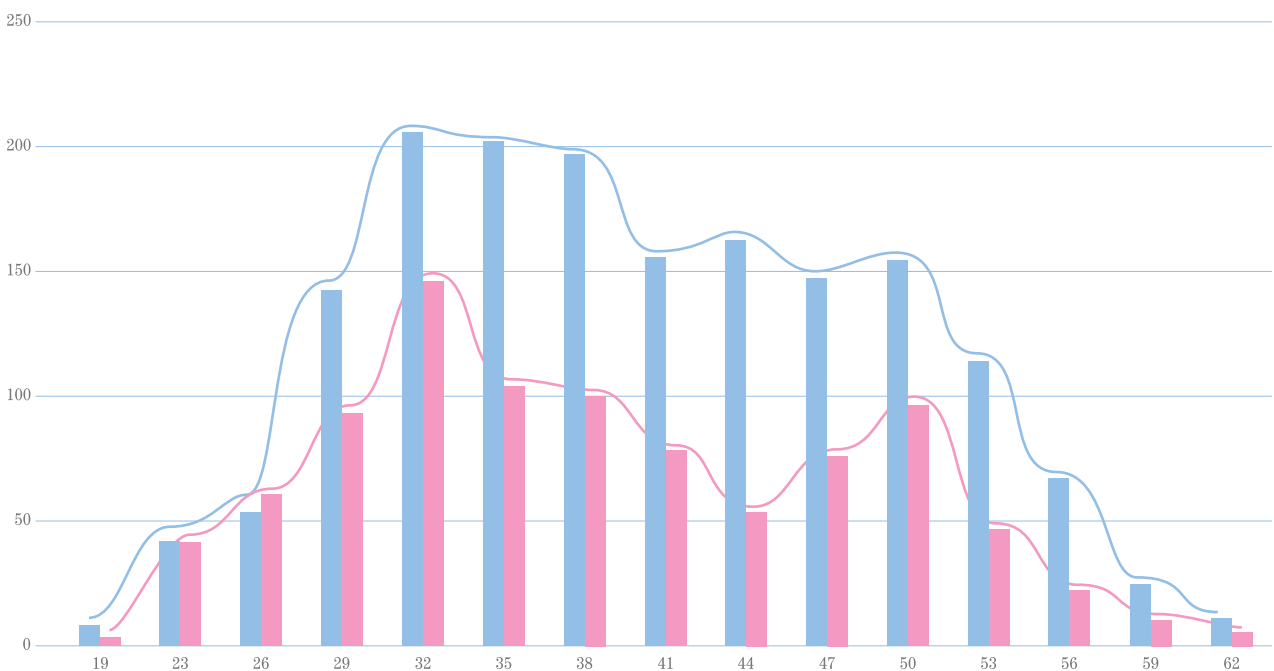
Successful companies are based on high-quality people, their knowledge, abilities and performance. Only competent and motivated employees can attain the company's goals and strategy. "HR-your business partner" is the mission of human resources, which is realized through a number of activities whose purpose is to build, in a business-pragmatic manner, a platform and tools for translating our power of human potential into a competitive advantage on the market.

Like the majority of successful companies in the world, T-HT is introducing a performance management system whose basic goal is to remunerate the employees according to their performance and in this way link the performance of every employee to the strategic goals of the company and its market success. The implementation of a new IT system was started as a support to the processes of the human resources management. In order to retain the market position and competitive edge on the telecommunications market, it is necessary to have an optimum structure and headcount. This is why the process of headcount optimization, conducted in collaboration with social partners and according to legal regulations and the Collective Agreement, was continued throughout 2006. As a socially sensitive and responsible employer, T-HT took the initiative to set up a section for support to surplus employees. The basic purpose of this section is to provide additional care and professional assistance, through the program



Employees by gender and age

■ male ■ female



„Support Plus“, to surplus employees on the open labour market. The total number of T-HT's employees as on 31st December 2006 amounted to 7498, with an average employee age of 39.9.

Knowledge is the driver of growth

Almost revolutionary technological changes in the telecommunications industry and new market challenges call for a continuous improvement of the existing and the acquisition of new knowledge. T-HT insists on lifelong learning and development of employees' competencies and in this regard increasingly invests in the education per employee.

A number of training courses were held in order to improve key competences of managers and employees alike.

Besides continuous activities of internal coaches related to the training of employees for specific business area requirements, more than 3,100 employees were additionally covered by various training programs (English courses, IT courses, professional and personal development). Interactive online learning started in October 2006, as a new, easier and faster form of spreading knowledge in the Company.

Corporate culture and values

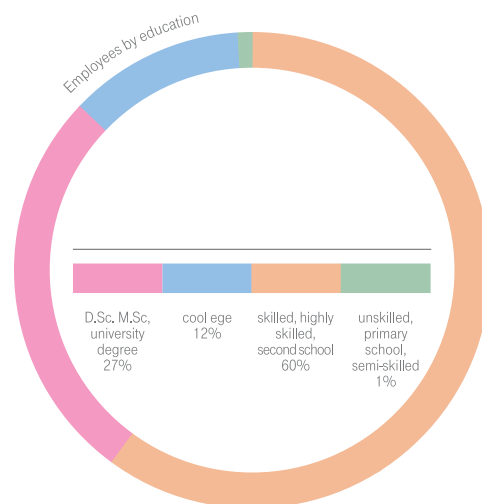
Following the initiative at the level of the DT Group, T-HT implemented the Code of Conduct (May 2006) and Ethical Management and in this way set up clear standards of business conduct, based on high ethical principles, along with good economic results. Ethics Hotline was established for reporting violations of the Code of Conduct, what promotes fundamental company values of T-Spirit.

Employee Survey

Since the position of T-HT is that only satisfied and motivated employees, as the main asset of the company, can face business challenges, an Employee Survey is conducted once a year and its results are used for improvements and changes within the Company.

A high response rate (60 percent of employees) in the Employee Survey 2006 made it possible for us to rely on its results and translate them into good practice - to the benefit of the employees, the Company, its customers.

All indexes (strategy, service culture, innovation and learning processes and cooperation, engagement, leadership, T-Spirit, commitment), which are measured in the Survey,



increased with regard to previous year and areas for improvement were identified, as well as steps to be taken. The feedback gained from the Survey is an irreplaceable aid and indicator what needs to be done in order to operate even more efficiently, with the employees who achieve their maximum potential in daily operations.

Open communication

As a result of the Company's awareness of the value of internal communications and its impact on corporate culture, the portal of Human Resources was launched late in May 2006, within the Company's Intranet. The main purpose of these new pages is to provide the employees with the easiest and fastest possible access to relevant information, possibilities and benefits, but also to actively involve them in the creation of an open communication culture.

Collaboration with social partners

There is an ongoing open partner dialogue with our social partners - trade unions and employees' representatives in workers' institutions.

In December 2006, the Collective Agreement with the Croatian Telecommunications Union and the Union of Workers in Croatia was signed. The new Collective Agreement reflects a high level of workers' rights in T-HT, while at the same time representing a significant step towards modern business operations, in which employees can be rewarded according to their performance.

Care for employees

In order to protect the social status and rights of its employees, T-Hrvatski Telekom founded the Closed-End Voluntary Pension Fund of T-HT and ensured incentives as well. T-HT organized free medical check-ups for all employees of the Company.



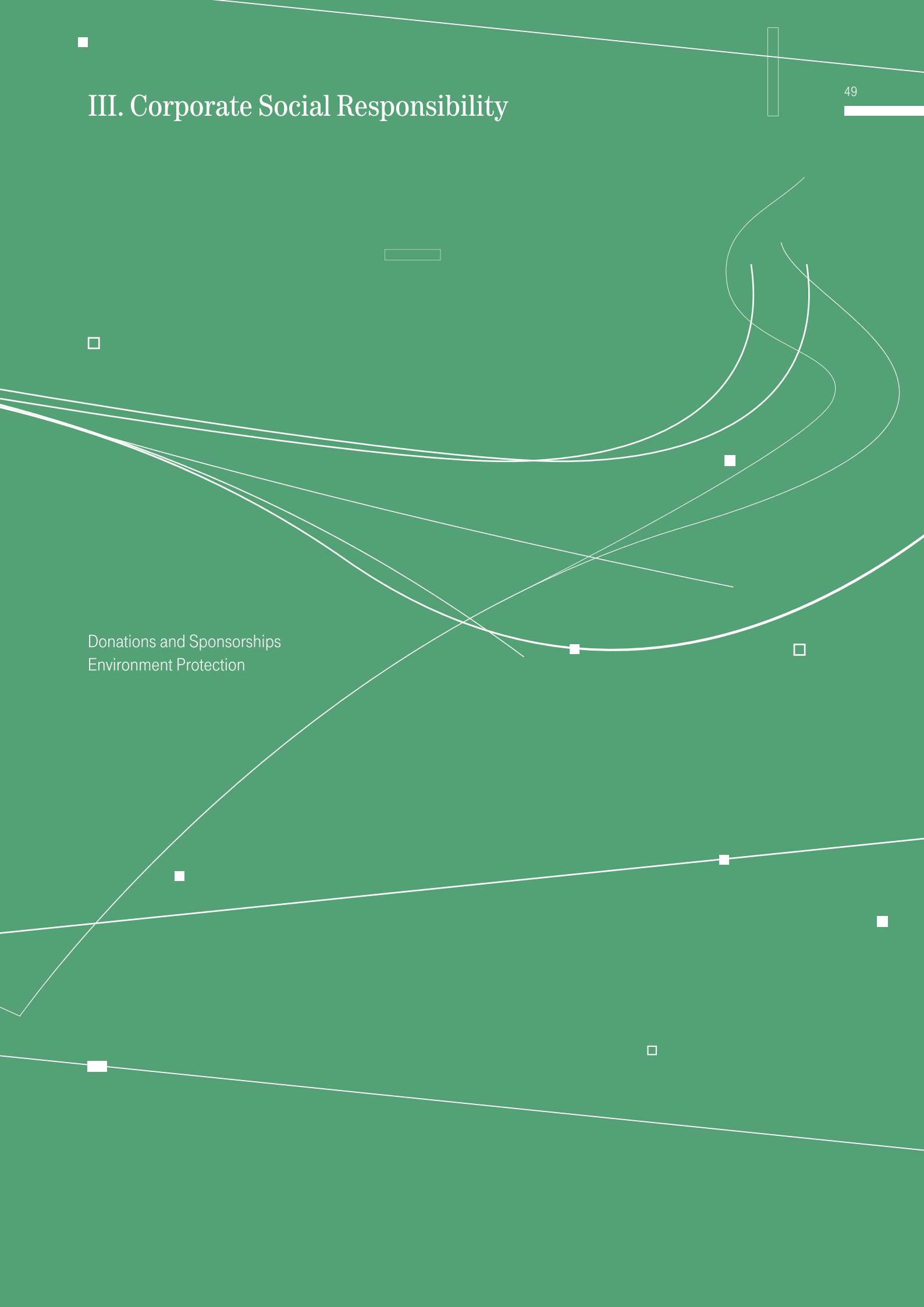
Strong and responsible ■

T-Hrvatski Telekom wants to share its market success not only with the shareholders and employees, but also with the Croatian society. As strong and socially responsible company, T-HT is focused on humanitarian, cultural, sports and educational projects realized on a broader social scale or initiated by the Company itself. Besides, preservation of the natural environment is part of the overall activities of T-HT.



III. Corporate Social Responsibility

Donations and Sponsorships
Environment Protection



T-HT strives to share its market success with the Croatian society. We network the society for a better future - this motto of Deutsche Telekom also defines our perception of corporate social responsibility. Competitiveness and corporate social responsibility go hand in hand because responsible behaviour is the basis of long term corporate success. This is the reason why T-HT puts its competencies and resources at the service of social development of the community, in which it operates.

Pursuant to its donation strategy, T-HT primarily focuses on educational, social and cultural projects in the Republic of Croatia. Our sponsorship strategy is focused on sports and cultural activities, through corporate level and through business units - T-Com and T-Mobile. A new policy of T-HT Group environment protection has also been developed.

Donations and sponsorships

Led by the idea that knowledge and culture are driving forces of the society while striving to provide financial support to those who need it most, T-HT participated in a number of donation activities and programs or initiated them itself in 2006.

Within the ongoing project "Net in school", which has been implemented in cooperation with the Ministry of Science, Education and Sports since 2001, T-HT has made it possible for students and teachers in Croatian elementary and secondary schools in the school year 2006/07 to use various telecommunications services. Apart from the well-known donation of 100 million free minutes, via dial-up or ISDN access, granted to students for Internet use outside school, and 10 hours of free Internet through ISDN connection for the purposes of educational process in schools, T-HT donated to students with MAXadsl connection three million free packages of MAXadsl 256 MB traffic in 2006.

In 2006, T-HT took part, as the major sponsor, in the humanitarian campaign "The First 3 Matter Most". The need for launching this campaign lies in the fact that the first three years of a child's life are crucial to the development of a child's personality and future. The UNICEF program for an early development of children and attachment parenting will aim at providing every parent with free knowledge and skills for the development of child's potentials.

T-HT was also one of the sponsors of the campaign for clearing of landmines named "Square Meter of Peace". The problem of landmines in Croatia should be resolved by 2009. However, according to some estimates, this may not be fully achievable until 2017. In order to shorten the above mentioned period as much as possible, the campaign organizer plans to keep the campaign going on for several consecutive years. The first objective to be attained during the next year is to raise funds

for mine clearing of house lots thus enabling all Croatian citizens to live in their homes without landmine hazard. T-HT has also proved itself to be a socially responsible company that takes care of cultural heritage as well. In late 2004, the Foundation "Ružička Memorial House" started its activities whose primary goal is to raise funds for the reconstruction, extension and furnishing of the house and modern multi-purpose room. T-HT has supported the project with a donation and the opening ceremony is planned for September 2007 in order to mark the 120th anniversary of the birth of the first Croatian Nobel laureate in the best possible way.

Within the project Kultura.HR, under which T-HT earmarked 2.5 million kuna for the reconstruction, repair and restoration of valuable Croatian cultural heritage, T-HT has helped to restore works of art in the Vukovar Town Museum and the Library of the Franciscan Monastery in Vukovar by earmarking HRK 500,000 for this purpose. The Vukovar Town Museum, which is located in the baroque palace Eltz, is among those cultural monuments that suffered heaviest destruction in Croatian Homeland Defence War. The donation of T-HT was used for the restoration of some of the most important works of art from the Museum holdings. A larger portion of the donation has covered the reconstruction of the Franciscan Monastery in Vukovar. T-HT's donation was used for furnishing the library space with bookshelves and restoring a part of the most valuable books.

As part of the above mentioned project, the reconstructed Studio for Clay Molding in Split, which is an integral part of Ivan Meštrović Gallery, was opened. The Studio has so far been used exclusively for storing large format plaster casts and was never subject of a separate permanent display. The humidity on the outer side of the northern wall was eliminated by embedding the wall fully in the ground, the humidity of the interior was eliminated, the floor in the entrance hall and plaster in the interior were repaired, and walls were painted, the exterior and interior woodwork and parquet restored. The premises have been furnished according to the project of the museum permanent display. T-HT donated half a million kuna for the purposes of the restoration of the Studio for Clay Molding.

Besides, T-HT announced a competition for regional donations in the area of education and culture. After the suggestions of T-HT employees, 30 projects were selected and HRK 814,000 donated. The competition titled "Together We Are

Stronger" showed T-HT's intention to provide financial support as a leading Croatian company that actively participates in the life of the local community in the realization of regional projects in the field of education and culture, which deserve social recognition and support.

T-HT also initiated a large project of cooperation with the Croatian academic community. The cooperation with the universities is focused on the results which contribute to T-HT's value and will also include further education of experts whose postgraduate studies are financed by the Company. The project started with signing of a frame contract on the cooperation in scientific, research and development-related activities with the aim of promoting the transfer of knowledge and ideas between science and the economy, through specific projects with the Faculty of Electrical Engineering and Computing in Zagreb. The contract is worth three million kuna and it has been signed for the period of three years. T-HT will also give out awards to the best students for the previous academic year and support students taking part in international specialized students competitions.

Apart from the above major campaigns, T-HT has also provided financial support to a number of other valuable humanitarian projects. Croatian Caritas was given, along with other humanitarian organizations, financial support for the poorest families in Croatia.

Given the influence of sport on society as a whole, T-HT continued its cooperation with the Croatian Olympic Committee as the general sponsor throughout 2006, thus promoting the Company and associating its brand with the values propagated by the Olympic Games, and actively participated as a partner in the Winter Olympic Games in Turin.

Continuing the strategy of sponsoring football, the most popular team sport in Croatia, T-Com renewed the contracts with the teams of the Croatian national football league in order to create better conditions for the development of football and the promotion of sports culture, through the broad campaign "I Love Football". In addition to sponsoring eleven national league teams, T-Com also sponsored the umbrella organization of Croatian football - the Croatian National League Association. T-Com will declare the sponsorship was realized by T-Com, which will declare the best goal scorer at the end of the football season and present the award for T-Fair Play.

In 2006, T-Com continued to sponsor and to promote culture and cultural events through the project KulTurst. By providing support to cultural projects, T-Com also supports the development of Croatian tourism - making it even more attractive and recognizable, both at a national and international level. Last year, KulTurst included Actor's Festival, Jazzarella - All Woman Jazz Festival, The Garden Music Festival, Animafest - 17th World Festival of Animated Films, Osijek Summer Nights, International Children's Festival in Šibenik, Tabor Film Festival, Pula Film Festival, Theater Ulysses, 52nd Split Summer, Špancirfest and Hlapecfest (street art festivals), Jazzg Festival and One Take Film Festival.

T-HT asserted its role as the leading telecommunications operator in Croatia by becoming a partner in a number of international and local forums and conferences, especially those connected with the telecommunications industry, economic development and development of IT community, in which process T-HT provided funds for the maintenance of the necessary telecommunications infrastructure and equipment. In this context T-HT provided support to the project of the Croatian House press centre during Winter Olympic Games in Turin, Snow Queen Trophy on Sljeme, 4th intergovernmental conference "Biological variety in Europe", ICT forum, EastEuro Link conference, MIPRO etc.

T-HT has been continuously investing into knowledge and to this end it sponsors the Croatian Association of IT Experts by providing the necessary equipment and prizes for various competitions for young IT specialists. T-HT participated for the third time in a row in the competition of elementary and secondary schools in the design of web pages for young people whose content relates to the European Union, organized by the Ministry of Foreign Affairs and European Integrations of the Republic of Croatia and Croatian Academic and Research Network - CARNet. The goal of competition is to encourage students to develop, adapt and present information on the European Union to young people by using the advantages of Internet as a multi-media and interactive tool. The theme of the competition in 2006 was "Mobility of Young People in the European Union". T-HT participated in the campaign as sponsor of the second prize as well as in activities of the committee responsible for the supervision and the final assessment of the best solutions.

T-Mobile maintained its reputation as a company with a high level of social responsibility awareness in 2006 as well. In the course of 2006, it donated five ambulance cars with the most advanced medical equipment and technology to regional centres in Croatia. As T-Mobile is a socially responsible company interested in the welfare of the community, the purpose of this donation was to make the public aware of this issue and to encourage other important investments that will directly contribute to an improved quality of life. Since each of the above ambulance cars can be used for additional 24 interventions a day, which is

the average number of interventions per vehicle per day, this can significantly improve the quality of health care services.

Who could imagine that the pole dropped by Janica during the slalom on Sljeme on 5 January 2006 would become a symbol of humanity? And this is exactly what happened. Soon after the slalom race Jutarnji list (daily newspaper) launched a humanitarian campaign to raise money for surgery on Anđelo Kraljević, a boy suffering from tendon strain. T-Mobile earmarked as much as HRK 130,000 for the ski pole and soon after that Anđelo underwent surgery in Germany. His rehabilitation has been successful.

T-Mobile was also the general sponsor of the above FIS World Cup race on Sljeme - Snow Queen Trophy, personal sponsor of Janica Kostelić, the best Croatian athlete, and general sponsor of the Croatian national alpine ski team (Croatian alpine ski pool). It also supports Croatian snowboarders.

Apart from skiing, T-Mobile also actively supported sailing as sponsor of the Easter Regatta, Vis Regatta, Fiumanka, Mrduja Race, Liga 13, Match Race and Finn Gold Cup (sailing regattas). T-Mobile is also the personal sponsor of the yachtsman Ivan Kljaković Gašpić Bambi, the European and world champion in Finn class.

Together with the association Bicikl (Bicycle), T-Mobile has organized the educational project for elementary school students titled "Go to School by Bike" which included 16 schools. The goal of the project is to raise the awareness of traffic security and to promote bicycle as a healthy, environmentally friendly means of transport suited for children.

Based on the sponsorship contract with Gibonni, one of the most eminent Croatian musicians, T-Mobile is the only Croatian company to provide exclusive offer of Gibonni's songs for mobile phones. The users of T-Mobile can download Gibonni's ringtones and realtone melodies, and T-Mobile shops had the exclusive right to first sell his latest album "Unca fibre". T-Mobile also sponsored his major concerts.

T-Mobile also actively supported culture as the general sponsor of Van Gogh, Mondrian and the Hague school exhibition.

T-Mobile sponsored some conferences held in 2005, e.g. ICPE conference and MIPRO. It was also the general sponsor of the national competition for the best mobile handset of the year - Zlatni Moby (Gold Mobile Phone).

Environment protection

The goal of T-HT, as Croatian market leader that provides a full range of telecommunications services and integral products portfolio, is to create value for its customers, shareholders and partners, while constantly taking care of the protection and preservation of the environment and maintaining social responsibility towards its employees and society as a whole. As DT Group member, T-HT accepts high standards of corporate responsibility reflected in the Group's Strategy of Sustainable Development, which is based on the vision of "better future", affirmed through the principles of T-Spirit, thus showing its commitment to responsible management of natural resources, environment protection and sustainable social and economic growth in the environment in which it operates. T-HT is a responsible business entity that operates on the free market and in the competitive environment and thus confirms its commitment to environment protection, as additional proof of its social responsibility, through integration of environment protection issues into its key business processes, in which process T-HT is well aware of the fact that its daily activities have manifold impact on the environment. While taking full responsibility for a potential negative impact of its activities on the environment, T-HT will take all possible measures to reduce the above impact to a minimum, wherever and whenever possible. T-HT will also strive to introduce technologies, solutions and services that will reduce the impact on the environment and that may have beneficial effect.

Pursuant to the policy of the DT Group environment protection and its basic principles of climate protection, the policy of T-HT Group environment protection helps, among others, to avoid risks related to the loss of reputation and credibility of the T-HT Group. The latter policy helps to determine T-HT's orientation within the Group and creates the basis for future measures related to environment protection, especially with regard to climate protection. It builds trust of our internal and external parties concerned (non-governmental organizations, political bodies, local community etc.), in T-HT Group sincere commitment to environment and climate protection. In spite of the fact that environment protection policy does not as a rule entail any risks whatsoever for T-HT, reputation and credibility of the Group can be put at risk if the activities in the respective field are not conducted pursuant to the accepted policy.

The environment protection policy of the T-HT Group includes all Group environment aspects: waste, soil, energy, raw materials, water and waste water, air and air emissions, electromagnetic fields and noise. As climate is a very important issue (environment aspects, air and greenhouse gas emissions), special attention has been paid to these issues by adequately applying DT Group principles governing climate protection.

In the field of environmental protection, T-Mobile has gone beyond legal requirements, by introducing ISO 14001 Environmental Management System in 2002. The yearly external audit of the Environmental management system was performed according to the ISO 14001 standard in October 2006, with very good results and with no non-compliances found in the EMS.

The ISO 14001 certificate shows that T-Mobile is actively involved in environmental protection, but it is also a proof that T-Mobile is systemically and dedicatedly committed to ecological issues. T-Mobile continuously adjusts every part of its business to the latest European and world ecological standards.

To achieve this, T-Mobile trains the management and the employees permanently with the purpose of their skills and environmental protection consciousness, implements the new ecologically acceptable technologies and processes, undertakes preventive measures in order to improve environmental protection results, keeps the highest degree of control over the aspects in project designing and construction, permanently improves and develops the Environmental Management System, conducts evaluation procedures, adjustments and repair activities, reduces waste production and monitors the achievement of goals and also harmonizes its operations with the guidelines on sustainability

in the use of resources, direction of investments and technical development for the purpose of their mutual alignment and to meet the needs and expectations of the current and future service users.

Following very successful ecological actions in previous years, during the action performed in 2006 by T-Mobile Croatia and the Croatian representative of Nokia, Mobis Electronic, more than 3.500 old mobile phones, their chargers and batteries were returned and ecologically disposed of in accordance with the highest standards of environmental protection.

Apart from special ecological actions, T-Mobile also takes care about the equipment which is used in GSM and UMTS networks. The base stations of the T-Mobile GSM network have been developed, tested and put into operation in line with the international standards and requirements. T-Mobile gets certificates from its suppliers, proving that the base stations comply with the ICNIRP safety requirements as well as a series of standards for product safety, electromagnetic compatibility and general technical regulations. Furthermore, all terminal and other equipment are certified to be compatible with a series of European and worldwide standards; the respective certificates are issued by the Croatian Telecommunications Agency.

T-Mobile, being a responsible telecommunications company, supports and encourages comprehensive and detailed scientific research and monitors the investigations of a whole series of organizations, independent groups, expert teams and scientists on the impact of electromagnetic radiation. With respect to electromagnetic fields protection, T-Mobile has to comply with the By-law on EMF protection, passed by the Ministry of Health.

In 2006, the Ministry of Health and Social Welfare, after detailed examination of the Study conducted by the eminent experts, has determined that all the requirements from the By-law on EMF protection are met.

Management's Discussion of Financial Performance

The following financial analysis should be read in conjunction with the consolidated financial statements and the notes included in this report. The consolidated financial statements of T-Hrvatski Telekom are presented in Croatian kuna (HRK), and have been prepared in accordance with the International Financial Reporting Standards, as well as the requirements of the Croatian Accounting Act. For comparison, comparative figures for the previous year have been adjusted to conform to changes in the presentation in the current year. The format of the income statement presented and the analysis thereof was made in accordance with the cost type method, and differs from the format of income statement provided for DTAG consolidation purposes, which was made in accordance with the cost function method.

T-HT Group Consolidated Financial Results

The Group's total consolidated operating revenues for the year ending 31st December 2006 amounted to HRK 8,839 million. Its consolidated operating profit stood at HRK 2,376 million, while its net profit for the year amounted to HRK 2,058 million.

Consolidated Revenues

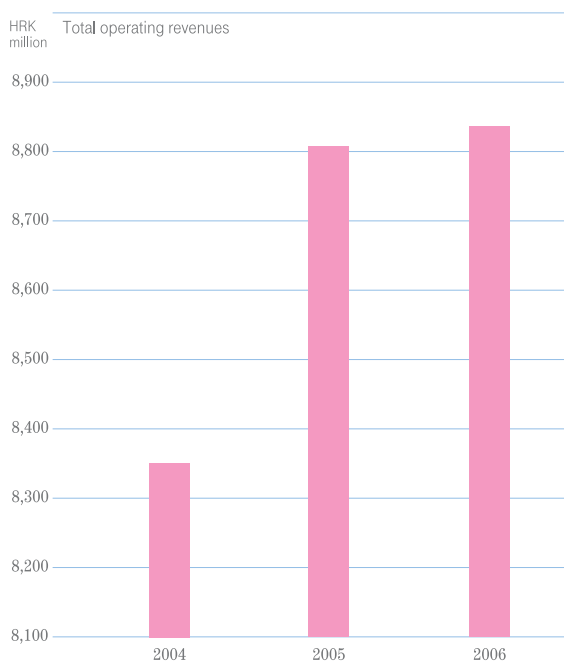
Consolidated revenues from sales reached HRK 8,630 million in 2006, representing an increase of 0.3% over 2005.

The growth in group revenues was primarily driven by mobile communications and Internet and, to a lesser degree, by carrier services. Together, these business segments accounted for 56.3% of the Group's total revenue, with growth in these segments more than offsetting the decrease in fixed telephony revenues and revenues from data services.

Revenues from fixed telephony amounted to HRK 3,558 million, what represents a decrease of 11.5% compared to 2005. This decrease was mainly due to increased fixed line competition, partial migration of traffic to wholesale (carrier pre-selection) and overall decrease in demand due to mobile substitution.

On consolidated basis, revenues from mobile telephony rose by 8.0% over 2005, amounting to HRK 3,708 million, what also represents the highest revenue growth among business segments. These revenues were underpinned primarily by T-Mobile's strong market position, growth in penetration and market share, continued customer growth, and rollout of new services. In absolute terms, mobile telephony was the most significant contributor to the growth of consolidated group revenues.

Revenue by business segment	2006	2005	2006/2005
	HRK millions	HRK millions	
Revenue from fixed telephony	3,558	4,020	-11.5%
Revenue from mobile telephony	3,708	3,432	8.0%
Revenue from carrier services	665	624	6.6%
Revenue from internet services	490	301	62.8%
Revenue from data services	209	228	-8.3%
Total revenue	8,630	8,605	0.3%



Revenues from carrier services have increased by 6.6% mainly as a result of the fact that the Company started to provide services for other fixed operators. A positive trend is also visible on mobile to VAS services and T-Mobile leased lines. The revenue from ADSL transport traffic and international IP services is also above last year figures.

In 2006, the total internet revenue has increased by 62.8%. In line with a robust shift of revenues from narrowband to broadband, the most significant growth is recorded in DSL access and traffic (mainly due to the good response of customer to MAXadsl push campaigns) and VPN Online. Iskon revenues contributed to consolidated revenue in amount of HRK 39 million.

Revenue from data services decreased by 8.3% compared to 2005, reaching HRK 209 million. Metro Ethernet, introduced as a new service in May 2006, has recorded first revenues in the amount of HRK 1 million with 83 lines at end of 2006.

Consolidated Operating Costs

During 2006, the Group's consolidated operating costs amounted to HRK 6,463 million, what represents a decrease by 1.4% compared to 2005.

Material Costs

The cost of raw materials, consumables and merchandise increased by 6.8% in comparison to 2005. This increase can be attributed mainly to the increase in costs of merchandise purchased for resale to consumers (mobile handsets, ADSL terminal equipment and similar). The service costs increased by 7.4%, mainly due to increases of maintenance costs and the increase of advertising costs.

Staff Costs

As compared to last year, there was a 24.1% decrease in total staff costs. The cost of gross wages and salaries increased by 0.4%. Largely accounted for a very significant decline in redundancy cost, down by 97.2% in 2006 (for details see paragraph on special influences).

	2006 HRK millions	2005 HRK millions	2006/2005
Material costs			
Cost of raw materials, consumables and merchandies	735	688	6.8%
Other material costs and costs of services	2,219	2,067	7.4%
Staff costs			
Gross wages and salaries	907	903	0.4%
Taxes, contributions and other payroll costs	301	312	-3.5%
Costs of redundancy and employee legal cases	11	390	-97.2%
Expenses related to employee benefit obligations	24	33	-27.3%
Work performed by the Company and capitalised	(201)	(159)	26.4%
Depreciation and amortisation of fixed assets	1,597	1,459	9.5%
Impairment of property, plant and equipment	68	47	44.7%
Write down of current assets	205	121	69.4%
Other costs	597	697	-14.3%
Total operating costs	6,463	6,558	-1.4%

	2006	2005	2006/2005
Number of employees (end of year)	7,498*	7,738**	-3.1%

* 7,498 include 774 employees, whose employment contract will be terminated during 2007

** 7,738 includes 556 employees, whose employment contracts are terminated during 2006

Management's Discussion of Financial Performance

Depreciation, amortization and write down of fixed assets

Depreciation and amortization amounted to HRK 1,597 million, what represents an increase of 9.5%, or HRK 138 million over 2005.

Write-Off of Current Assets

The current assets write-off in 2006 amounted to HRK 205 million, what represents 69.4% increase in comparison to the write-off of current assets in 2005.

Consolidated Operating Profit

The consolidated operating profit increased by 5.6% as compared to the previous year. This increase was mainly generated by lower total costs (significantly lower redundancy costs by HRK 379 million) and increased revenues - primarily from mobile communications and Internet.

Taxation

The corporate income tax rate in Croatia is 20%. The total income tax calculated for the year 2006 amounted to HRK 534 million. This increase in current tax expenses compared to 2005 was mainly related to an increase in the amount of profits before tax. Deferred tax in the amount of HRK 25 million resulted from the difference between deferred tax liability (HRK 39 million) and deferred tax assets (HRK 14 million).

Consolidated Net Profit

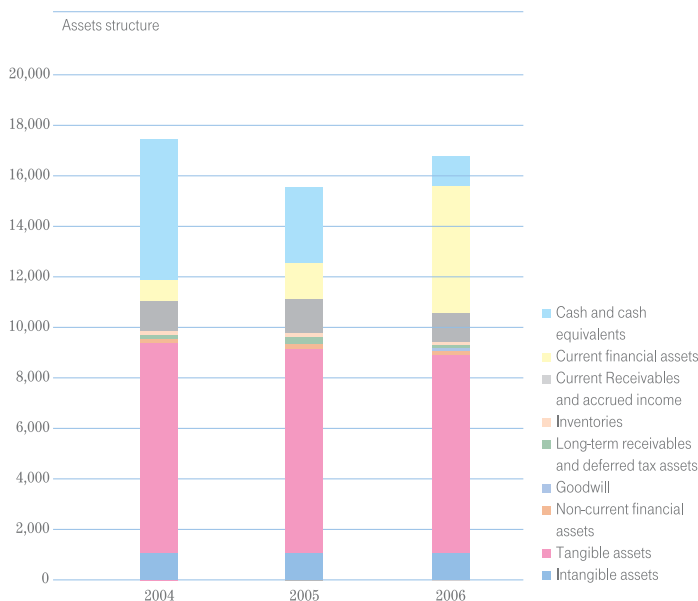
In 2006, consolidated net profit amounted to HRK 2,058 million, what represents an increase compared to HRK 1,921 million of consolidated net profit realized in 2005. This increase in net profit resulted from the decreased total costs and increased total operating income, with mobile communications as its main driver.

Financial Condition

Consolidated Balance Sheet

Total consolidated assets at the end of 2006 amounted to HRK 16,942 million, representing an increase of 9.0% over 2005. The increase in consolidated assets was driven by an increase in short-term assets by 26.9% to HRK 7,774 million, mainly as a result of increased time deposits.

The total consolidated liabilities amounted to HRK 3,024 million as of 31st December 2006, what represents an increase of 6.0% compared to 2005. This change in total liabilities corresponds to the following changes: (i) non-current liabilities amounting to HRK 769 million decreased by 5.5%, mainly



as a result of a lower deferred tax liability and (ii) current liabilities amounting to HRK 2,255 million increased by 10.6% mainly due to increased trade payables but compensated by decreased provisions for redundancy.

As of 31st December 2006, the consolidated shareholders' equity (capital & reserves) amounted to HRK 13,918 million, what represents an increase of 9.7% compared to the amount as of 31st December 2005. Moreover, retained earnings, which should be viewed in conjunction with the changes in revaluation reserves, increased in 2006. (The release of revaluation reserves to retained earnings corresponds to the difference between depreciation based on the revalued carrying amount of property, plants and equipment, on the one hand, and depreciation based on the original cost of property, plants and equipment, on the other.) In January 2006, the Company declared and paid out an advance dividend to the shareholders resulting from preliminary results of the Company for 2005 in the amount of HRK 813 million.

Subsequent event (not reflected in the financial statements)
The associate HT Mobilne komunikacije d.o.o. Mostar was merged with another associate Hrvatske telekomunikacije d.o.o. Mostar as of 3rd January 2007. After merging, the new ownership share of the Company in the associate Hrvatske telekomunikacije d.o.o. Mostar amounts to 39.10%.

Consolidated Cash Flow

Net cash inflows from operating activities amounted to HRK 3,883 million in 2006, an increase of 23.3% compared to 2005. This is primarily the result of an increase in payables and a decrease of receivables.

Investment activities in 2006 resulted in net cash outflow of HRK 4,694 million, while in 2005 they resulted with significantly lower net outflow of HRK 1,928 million. This is mainly result of increase in purchase of current financial assets (short term deposits). The net cash outflow from financing activities amounted to HRK 825 million in 2006, what represents a major decrease of outflow in comparison to 2005 when the cash outflow from financing activities amounted to HRK 3,633 million. Difference by comparison with last year was generated by significantly lower dividend payment in 2006.

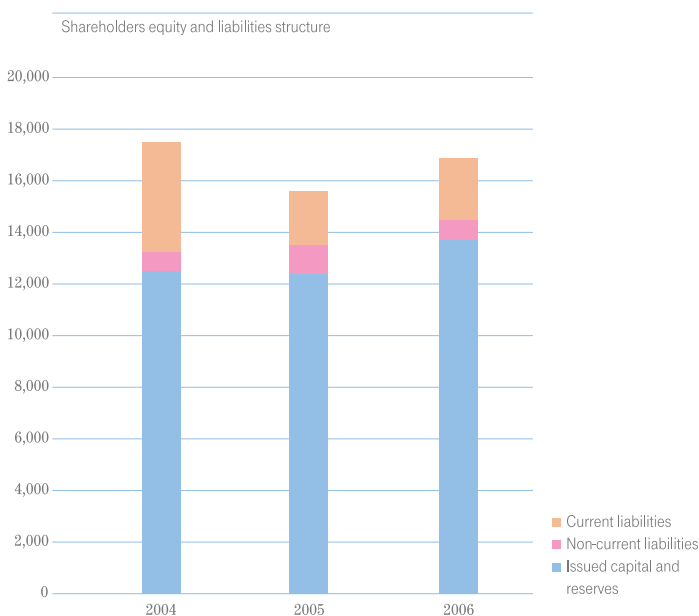
The group's consolidated net cash and cash equivalents position at the end of 2006 was HRK 1,254 million, what represents a decrease of 56,6% as compared to 2005.

Reconciliation of Pro Forma Figures

Special Influence

Redundancy

Redundancy costs of the Company and the Group totalled HRK 11 million in 2006, additionally with existing accrued liabilities of the Company and the Group including the amount of gross severance payments for employees whose employment contracts will be terminated during 2007 due to business reasons.





Always up-to-date ■

T-Croatian Telecom has realized its technological advantage primarily through innovative services and through its offer, designed for a new digital lifestyle. Television via Internet - MAXtv or Internet on the move - web'n'walk are just some of the services to mention from the portfolio of innovative solutions, which were eagerly embraced by customers with both hands, literally - remote control in one hand and a mobile device in the other.



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 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. As of 17 February 2005, the Government of the Republic of Croatia transferred 7% of its shares in HT d.d. to the Fund for Croatian Homeland War Veterans and Their Families in accordance with Law on Privatisation of HT d.d. (Official Gazette No. 65/99 and 8/2001).

During 2002, HT mobilne komunikacije d.o.o. ("HTmobile") was founded as a separate legal entity and subsidiary wholly owned by HT d.d. for providing the mobile telecommunication services. HTmobile commenced its commercial activities on 1 January 2003, until that time GSM and NMT services were provided by HT d.d. During 2003, the process of the mobile telecommunication business separation into HTmobile was finalized.

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

Principal activities

The principal activities of HT d.d. and its subsidiary T-Mobile Croatia d.o.o. (together "HT Group" or "the Group") comprise the provision of telecommunication services, and the design and construction of communication networks in the Republic of Croatia.

The Group's operations are performed through its two business units: Business unit for fixed and broadband (T-Com) and Business unit mobile (T-Mobile - separate legal entity) supported by four corporate units (CEO corporate unit, Financial corporate unit, Human resources corporate unit and Group services corporate unit). The Group's regional presence is organized through four regions: Region North (location Zagreb), Region West (location Rijeka), Region South (location Split) i Region East (location Osijek).

In addition to providing fixed line telephony services (access and traffic through fixed telephone lines and additional fixed network services), the Group operates Internet, data services, mobile telephone networks GSM (global network called CRONET) and UMTS (third generation mobile network).

Significant events

Acquisition of alternative operator Iskon Internet

On 30th of May 2006, T-HT Inc. acquired 100% of shares of Iskon Internet Inc., one of the leading alternative operators in Croatia, who, in last 6 years, established operations in area of Internet access (ISP), data transfer, private networks for medium and small enterprises as well as web hosting services. Iskon will remain business and organisation wise an independent member of the T-HT Group and will operate in the market segment of alternative telecommunication services based on broadband.

Continuation of rapid expenditure in broadband accesses

In 2006 T-Com continued with strong expenditure of broadband access based on ADSL technology. The number of accesses more than doubled from 101,300 at the beginning of the year to 215,473 at the end of the year. In this way T-Com exceeded its very ambitious plan for 27% expansion, but also made a very significant contribution to the development plan of the Government of Republic of Croatia - 500.000 broadband accesses in Croatia by the end of 2008. Expansion of ADSL is one of key parts of T-Com's strategy. The importance of ADSL goes beyond faster access to Internet for customers. Namely, broadband accesses are a precondition for the implementation of new, complex services which bring significant added value, such as TV and video on demand over IP, learning and working over distance, etc.

Introduction of IPTV

Since September 2006 T-Com has offered IPTV to its customers with broadband access, as one of the first 10 companies who provided this service in Europe. Within the MAXtv package customers can watch free of charge more than 50 domestic and international programs (the number will continue to increase), and for an additional fee additional programs (e.g. HBO). The package also includes video (video on demand customers have at their disposal 100 movies free of charge and more than 500 movies to rent) as well as shorter movies related to health, cooking and other topics. Until December 31st, MAXtv was used by 5,800 T-Com's customers and further 7,200 customers have signed contracts for connection.

Advanced services for business customers

The most important services for T-Com's business customers include: (1) NetPhone service, i.e. fixed telephony over Internet Protocol for large customers offered since February 2006 and for medium and small customers offered since September 2006 (2) introduction of slower speeds (512 kb, 2 MB and 4 MB) for MetroEthernet in September, in this way the service has become available for small and medium customers and (3) new tariff packages in fixed telephony for small and medium enterprises Business 100 and 500.

Commercial start of WiMax

According to conditions of the concession agreement, by which T-Com obtained rights to implement fixed wireless access (WiMax) in four counties, T-Com implemented its WiMax networks in Međimurska county in May and in Osječko-baranjska county in October. By doing so, T-Com became one of two operators in Croatia with operational WiMax in 2006.

Significant events (continued)

New packages in mobile telephony

T-mobile introduced, as the only operator on the market, postpaid tariff packages containing all service costs in one package (calls, SMS, MMS, data transfer, international calls) which significantly simplified cost management for customers, while the new business tariff Flex Team covers special requests of small and very small companies.

Increased internet accessibility from mobile phones

From summer 2006 T-mobile made available to its customers new service "Web'n walk" which allows access to the Internet over the GPRS network and mobile devices in an easy way and at popular prices. Access to Internet thus became more convenient and flexible for T-Mobile users.

The most significant changes on the mobile market include the appearance of the new VIPnet brand with low prices, Tomato, and the introduction of a number transfer service between different operators (if a customer changes from one to another operator). During 2006 Tele 2, the third mobile operator, expanded operations and obtained a small market share. Despite such market development T-Mobile reached more than two million users and strengthened its leading position on the Croatian mobile market.

During 2006 significant resources were devoted for development and modernization of mobile network. Within several conducted independent market researches customers graded T-Mobile network as the best one in Croatia.

Strategy

In 2006 market challenges for the Company and the Group have increased significantly: the number of commercially active competitors in fixed telephony increased during the year from 2 to 7 (12 additional operators are received the license but did not fulfil technical preconditions to start with operational work), while in mobile telephony 2 competitors remained active. In such an environment with strengthened competition the strategy of T-HT Group is to remain the leading Croatian telecommunication operator with a unique offer of a complete telecommunications service portfolio. The goal of the Group is to create tailored telecommunication solutions to satisfy all customer needs "from one source and user friendly". Especially for residential customers this means easier communication and access to diverse contents (internet, music and video) and for business customers support in increasing efficiency and speed of business activities as well as expansion of e-commerce. Another segment of Group's strategy is leadership in technology: T-HT should always be operator number one, who will use the latest achievements and solutions in technology with the aim to advance current as well as to develop new services.

Directors and management

Supervisory Board

The members of the Supervisory Board who served during 2006 and subsequently are as follows:

Gerhard Mischke	President	From 22 October 2004
Gerhard Mischke	President	Until 12 February 2007
Michael Günther	President	From 12 February 2007
Miroslav Kovačić	Deputy president	From 17 June 2004
Horst Hermann	Member	From 22 October 2004
Ana Hrastović	Member	From 26 March 2004
Dr. Ralph Rentschler	Member	From 15 December 2003
Michael Günther	Member	From 25 October 2005
Michael Günther	Member	Until 12 February 2007
Miljenko Boban	Member	From 16 September 2005
Josip Pupić	Member	From 9 October 2004
Siegfried Pleiner	Member	From 22 November 2006
Siegfried Pleiner	Member	Until 16 October 2006

Management Board

The members of the Management Board who served during 2006 and subsequently are as follows:

Ivica Mudrinić	President	From 28 December 1998
Wolfgang Breuer	Member	Until 3 June 2006
Ivana Šoljan	Member	From 1 September 2002
Manfred Ohl	Member	From 1 May 2004
Božana Cathy Gregoire	Member	Until 22 March 2006
Katharina Hollender	Member	Until 31 January 2007
Irena Jolić Šimović	Member	From 1 August 2006
Rainer Rathgeber	Member	From 1 October 2006
Jürgen Czapran	Member	From 12 February 2007

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law in force, the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Company and the Group for that period.

The Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

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

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

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and must also ensure that the financial statements comply with the Croatian Accounting Law in force. The Board is also responsible for safeguarding the assets of the Company and the Group 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 26 February 2007.

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

26 February 2007

On behalf of the Company and the Group,



Ivica Mudrinić
President of the Management Board

Auditors' report

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

We have audited the accompanying consolidated and separate financial statements ("the financial statements" of HT - Hrvatske telekomunikacije d.d. ("HT d.d." or the "Parent Company") and its subsidiaries (together, the Group) which comprise Consolidated and Separate balance sheet as at 31 December 2006 and Consolidated and Separate income statement, Consolidated and Separate statement of recognised income and expenses and Consolidated and Separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 71 to 115.)

Management Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company and of the Group as at 31 December 2006 and of the results of their operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Ownership over ducts

Without qualifying our opinion, we draw your attention to the following matter: Although the assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of T-HT, HPT Public Company, by virtue of the "Law on Separation of Croatian Post and Telecommunication" and contributed by the Republic of Croatia to the share capital at the foundation of T-HT on 1 January 1999, according to other Croatian legislation, part of T-HT's infrastructure that may be considered as a real estate (ducts) - does not have all necessary documents (building, use permits etc.) and the major part is not registered in the land registry, which may be relevant for the issue of proving the ownership towards third parties. Current intrusions in T-HT ducts by other competitors and some requirements of ownership over these assets by the local authorities (the City of Zagreb presents the majority of problems), may have

a material effect on the financial statements in the case that T-HT will not be able to prove its ownership rights on some ducts.

T-HT formed the new Infrastructure Documentation & Registration department that is responsible to ensure that all network technology related assets are properly legalised, documented and that this documentation is available to relevant departments and authorities. The overall process is slow and complex since registration depends not only on T-HT, but also on local and state authorities. The net book value of all T-HT's ducts at 31 December 2006 is HRK 1,266 million.

In August 2006, the Croatian Agency for Telecommunication (HAT) made a temporary decision by which, starting from 1st October 2006, HAT will take responsibility for government and common use of ducts that are formally disputed by others when the owner of telecommunication infrastructure is not determined. Fees should be paid in from the side of all operators into a temporary account of HAT and after legal resolution of the real owner of the ducts all cash paid in will be transferred to the owner's account. No payments or provisions have yet been made in this respect, as it is still the subject of ongoing discussion and negotiations.

T-HT assessed and declared the existence of the risks thereon, including of obtaining legal opinion with respect to certain of the issues involved; however, due to the fact that these issues are very complex so far T-HT was not able to determine the likelihood of the possible outcome. No adjustments were made to these financial statements relating to these matters.

VIPnet and Optima Telekom cases

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

There has been a complaint made by competitor VIPnet d.o.o. towards the Competition Protection Agency regarding Frame Agreements that T-HT signed with its key and large business clients that allegedly contain anti competitive clauses. The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Law on Protection of Market Competition. T-HT delivered to the Agency all requested Frame Contracts and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceeding for assessing whether T-HT has abused its dominant position by conclusion of the Frame Agreements. The penalty for violations of the Law on Protection of Market Competition could amount up to 10% of the annual turnover. Due to the fact that the Agency has not determined the relevant market for these proceedings yet, T-HT was not able to determine the likelihood of the possible outcome of the case.

A similar complaint regarding Frame Agreements has been addressed by fixed competitor OT - Optima Telekom d.o.o to the Croatian Telecommunications Agency in June 2006. It should be pointed out that the penalty for violations of the Law on Telecommunications could amount up to 5% of the annual turnover. Due to the fact that the proceedings have just started, T-HT was not able to determine the likelihood of the possible outcome of the case.

At this point in time, no adjustments were made to these financial statements relating to these matters.

Consolidated HT Group income statement

(For the year ended 31 December 2006)

	Notes	2006 HRK millions	2005 HRK millions Restated
Operating income			
Revenue	4	8,630	8,605
Other income		209	203
Total operating income		8,839	8,808
Material costs			
a) Cost of raw materials, consumables and merchandise		(735)	(688)
b) Other material costs and costs of services	5	(2,219)	(2,067)
Staff costs			
a) Gross wages and salaries		(907)	(903)
b) Taxes, contributions and other payroll costs		(301)	(312)
c) Costs of redundancy	7	(11)	(390)
d) Expense related to employee benefit obligations	18	(24)	(33)
Work performed by the Company and capitalised		201	159
Depreciation and amortisation of fixed assets	6	(1,597)	(1,459)
Impairment of property, plant and equipment	6	(68)	(47)
Write down of current assets		(205)	(121)
Other costs	8	(597)	(697)
Total operating costs		(6,463)	(6,558)
Operating profit		2,376	2,250
Financial income		223	222
Financial expense		(8)	(52)
Share of profits of associates	13	1	1
Profit before taxes from ordinary activities		2,592	2,421
Taxation	9	(534)	(500)
Net profit for the year		2,058	1,921

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 2006)

	Notes	2006 HRK millions	2005 HRK millions Restated
Operating income			
Revenue	4	5,296	5,533
Other income		352	364
Total operating income		5,648	5,897
Material costs			
a) Cost of raw materials, consumables and merchandise		(315)	(295)
b) Other material costs and costs of services	5	(1,676)	(1,747)
Staff costs			
a) Gross wages and salaries		(747)	(758)
b) Taxes, contributions and other payroll costs		(253)	(263)
c) Costs of redundancy	7	(11)	(390)
d) Expense related to employee benefit obligations	18	(21)	(30)
Work performed by the Company and capitalised		171	159
Depreciation and amortisation of fixed assets	6	(1,085)	(1,001)
Impairment of property, plant and equipment	6	(66)	(12)
Write down of current assets		(56)	(92)
Other costs	8	(360)	(475)
Total operating costs		(4,419)	(4,904)
Operating profit		1,229	993
Financial income		165	193
Financial expense		(7)	(49)
Dividend income from subsidiary	22	971	811
Profit before taxes from ordinary activities		2,358	1,948
Taxation	9	(282)	(236)
Net profit for the year		2,076	1,712

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

Consolidated HT Group balance sheet

(As at 31 December 2006)

	Notes	2006 HRK millions	2005 HRK millions Restated
ASSETS			
Non-current assets			
Intangible assets	10	1,126	1,128
Property, plant and equipment	11	7,728	7,956
Investments in associates	13	99	99
Other investments	14	14	91
Goodwill		78	-
Long-term receivables		32	35
Deferred tax asset	9	91	105
Total non-current assets		9,168	9,414
Current assets			
Inventories	15	175	177
Debtors	16	1,135	1,318
Prepayments and accrued income		49	36
Investments	14	878	946
Time deposits	28 b)	4,283	759
Cash and cash equivalents	28 a)	1,254	2,889
Total current assets		7,774	6,125
TOTAL ASSETS		16,942	15,539

Consolidated HT Group balance sheet (continued)

(As at 31 December 2006)

	Notes	2006 HRK millions	2005 HRK millions Restated
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	20	8,189	8,189
Legal reserves	21	531	394
Revaluation reserves	22	1,187	1,343
Fair value reserves	22	12	21
Retained earnings	22	3,999	2,740
Total issued capital and reserves		13,918	12,687
Non-current liabilities			
Provisions	19	97	110
Employee benefit obligations	18	199	193
Deferred tax liability	9	297	336
Accruals and deferred income		152	146
Long-term loans and other long-term liabilities		24	29
Total non-current liabilities		769	814
Current liabilities			
Trade payables and other current liabilities	17	1,383	1,064
Provisions for redundancy	7	428	557
Accruals and deferred income		376	352
Income tax payable		62	58
Short-term borrowings and current portion of long-term loans		6	7
Total current liabilities		2,255	2,038
Total liabilities		3,024	2,852
TOTAL EQUITY AND LIABILITIES		16,942	15,539

Signed on behalf of T-HT d.d. on 26 February 2007:

I. Mudrinić



J. Czaprán



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

HT d.d. balance sheet

(As at 31 December 2006)

75

	Notes	2006 HRK millions	2005 HRK millions Restated
ASSETS			
Non-current assets			
Intangible assets	10	493	560
Property, plant and equipment	11	6,433	6,641
Investment in subsidiaries		1,578	1,478
Investments in associates	13	38	38
Other investments	14	13	91
Long-term loans given to subsidiary		42	-
Long-term receivables		32	34
Deferred tax asset	9	69	78
Total non-current assets		8,698	8,920
Current assets			
Inventories	15	109	110
Debtors	16	738	889
Receivables from subsidiaries		142	110
Prepayments and accrued income		16	10
Investments	14	731	849
Time deposits	28 b)	3,741	759
Cash and cash equivalents	28 a)	1,005	2,149
Total current assets		6,482	4,876
TOTAL ASSETS		15,180	13,796

HT d.d. balance sheet (continued)

(As at 31 December 2006)

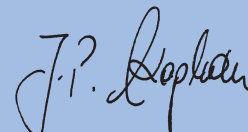
	Notes	2006 HRK millions	2005 HRK millions Restated
EQUITY AND LIABILITIES			
Issued capital and reserves			
Subscribed share capital	20	8,189	8,189
Legal reserves	21	403	316
Revaluation reserves	22	1,187	1,343
Fair value reserves	22	12	19
Retained earnings	22	2,991	1,657
Total issued capital and reserves		12,782	11,524
Non-current liabilities			
Provisions	19	91	108
Employee benefit obligations	18	184	186
Deferred tax liability	9	297	336
Accruals and deferred income		152	146
Long-term loans and other long-term liabilities		19	29
Total non-current liabilities		743	805
Current liabilities			
Trade payables and other current liabilities	17	803	598
Provisions for redundancy	7	428	557
Payables to subsidiaries		200	129
Accruals and deferred income		176	176
Income tax payable		42	-
Short-term borrowings and current portion of long-term loans		6	7
Total current liabilities		1,655	1,467
Total liabilities		2,398	2,272
TOTAL EQUITY AND LIABILITIES		15,180	13,796

Signed on behalf of HT d.d. on 26 February 2007:

I. Mudrinić



J. Czapran



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

Consolidated HT Group cash flow statement

(For the year ended 31 December 2006)

	Notes	2006 HRK millions	2005 HRK millions Restated
Net profit		2,058	1,921
Depreciation charges	6	1,597	1,459
Impairment loss of property, plant and equipment	6	68	47
Income tax expense	9	534	500
Interest income		(184)	(204)
Loss on disposal of assets		17	33
Dividend from associates	13	(1)	(1)
Decrease in inventories		2	11
(Increase) / Decrease in receivables and prepayments		191	(124)
Increase in payables and accruals		329	124
Increase in employee benefit obligations	18	6	8
Interest paid		(1)	0
Decrease in provisions		(160)	(16)
Value adjustment of inventories		2	36
Other non-cash items		(30)	(10)
Taxes paid		(545)	(635)
Net cash inflow from operating activities		3,883	3,149
Cash flows used in investing activities			
Purchase of non-current assets	10,11	(1,425)	(1,377)
Purchase of non-current financial assets		(86)	(70)
Proceeds from sale of non-current assets		12	17
Proceeds from sale of non-current financial assets		80	98
Purchase of current financial assets		(4,046)	(1,660)
Proceeds from sale of available for sale financial assets		754	860
Purchase of held to maturity financial assets		(145)	-
Interest received		161	203
Dividend received	13	1	1
Net cash outflow from investing activities		(4,694)	1,928
Cash flows from financing activities			
Repayment of long-term borrowings		(12)	(5)
Dividends paid	22	(813)	(3,628)
Net cash outflow from financing activities		(825)	(3,633)
Effect of FX rate changes on cash and cash equivalents		1	(1)
Net decrease in cash and cash equivalents		(1,635)	(2,413)
Analysis of changes in cash and cash equivalents:			
At 1 January		2,889	5,302
Net cash outflow		(1,635)	(2,413)
At 31 December	28 a)	1,254	2,889

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 2006)

	Notes	2006 HRK millions	2005 HRK millions Restated
Net profit		2,076	1,712
Depreciation charges	6	1,085	1,001
Impairment loss of property, plant and equipment	6	66	12
Income tax expense	9	282	236
Interest income		(148)	(174)
(Gain) / Loss on disposal of assets		(5)	10
Dividend from associates	13	(1)	(1)
Decrease in inventories		1	10
Decrease / (Increase) in receivables and prepayments		124	(23)
Dividend from subsidiary	22	(971)	(811)
Increase / (Decrease) in payables and accruals		296	(117)
(Decrease) / Increase in employee benefit obligations	18	(2)	60
Decrease in provisions		(164)	(65)
Value adjustments of inventories		2	36
Other non-cash items		(14)	(12)
Taxes paid		(257)	(382)
Net cash inflow from operating activities		2,370	1,492
Cash flows used in investing activities			
Purchase of non-current assets	10,11	(888)	(875)
Purchase of non-current financial assets		(100)	(70)
Non-current loans given to subsidiaries		(42)	-
Proceeds from sale of non-current assets		12	5
Proceeds from sale of non-current financial assets		80	98
Purchase of current financial assets		(3,504)	(1,565)
Proceeds from sale of current financial assets		649	860
Interest received		127	173
Dividend received	13,22	972	1,465
Net cash inflow / (outflow) from investing activities		(2,694)	91
Cash flows from financing activities			
Repayment of long-term borrowings		(8)	(5)
Dividends paid	22	(813)	(3,628)
Net cash outflow from financing activities		(821)	(3,633)
Effect of F/X rate changes on cash and cash equivalents		1	(2)
Net increase in cash and cash equivalents		(1,144)	(2,052)
Analysis of changes in cash and cash equivalents:			
At 1 January		2,149	4,201
Net cash (outflow) / inflow		(1,144)	(2,052)
At 31 December	28 a)	1,005	2,149

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

Consolidated HT Group statement of recognised income and expense

(For the year ended 31 December 2006)

		31 December 2006	31 December 2005
	Notes	HRK millions	HRK millions
Income and expense recognised directly in equity			
Valuation gains / (losses) from available for sale financial assets	14	(9)	2
Actuarial gains/(losses)	18	(4)	(34)
Deferred tax assets / (liabilities) on items directly recognised in equity		(1)	7
Net income recognised directly in equity		(14)	(25)
Profit for the financial year		2,058	1,921
Total income and expense recognised in the year		2,044	1,896

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

HT d.d. statement of recognised income and expense

(For the year ended 31 December 2006)

		31 December 2006	31 December 2005
	Notes	HRK millions	HRK millions
Income and expense recognised directly in equity			
Valuation gains / (losses) from available for sale financial assets	14	(7)	-
Actuarial gains/(losses)	18	2	(34)
Deferred tax assets / (liabilities) on items directly recognised in equity		0	7
Net income recognised directly in equity		(5)	(27)
Profit for the financial year		2,076	1,712
Total income and expense recognised in the year		2,071	1,685

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

Notes to the financial statements

(For the year ended 31 December 2006)

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%), the Republic of Croatia (42%) and Fund for Croatian Homeland War Veterans and Their Families (7%) ("Fund").

Under the Separation Law of 10 July 1998, the Telecommunications and Post businesses of HPT s.p.o. and the related assets and liabilities were transferred at net book value into two new joint stock companies, HT d.d. and HP d.d. on 1 January 1999. HPT s.p.o. ceased operations from that date. The share capital of HT d.d. was registered on 28 December 1998 on the basis of the unaudited balance sheet of HPT s.p.o. as at 31 December 1997. The registered office address of the Company is Savska cesta 32, Zagreb, Croatia.

During 2002 the Management Board of HT d.d. made a decision to transfer the mobile telecommunication business to a newly established wholly owned subsidiary, HT mobilne komunikacije d.o.o. ("HTmobile"). HTmobile was registered at the Commercial Court on 6 November 2002 and commenced its commercial activities on 1 January 2003. The headquarters of HTmobile is Ulica grada Vukovara 23, Zagreb, Croatia. On 1 October 2004, HTmobile has changed its registered name to T-Mobile Croatia d.o.o.

The Company has acquired 100% of shares of Iskon Internet d.d. ("Iskon") as of 30 May 2006. Iskon was registered at the Zagreb Commercial Court on 23 March 2000. The headquarters of Iskon is Savska cesta 41, Zagreb.

The total number of employees of the Group and the Company as at 31 December 2006 was 7,498 and 6,287 (2005: 7,738 and 6,718), respectively.

2 Summary of accounting policies

A summary of the significant accounting policies of HT d.d. applicable for the Group and the Company 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 2006, and as prescribed by the Croatian Accounting Law

(Official Gazette No. 146/05) 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 m);
- Investments held for trading and available-for-sale stated at fair value (Note x);

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 subsidiaries, T-Mobile Croatia d.o.o., Iskon Internet d.d. and KDS d.o.o. All intra-group transactions and balances are eliminated.

d) Functional currency

The Company's financial statements and consolidated financial statements are presented Croatian Kuna (HRK) which is the Company's and the Group's functional currency. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2006 was HRK 5.58 per United States Dollar (USD) (2005: HRK 6.23) and HRK 7.35 per Euro (2005: HRK 7.38). All amounts disclosed in the financial statements are stated in millions of HRK if not otherwise stated.

e) Critical accounting judgments and estimates

The preparation of the financial statements required management to make certain estimates and assumptions which impact the carrying values of the Group's and Company's assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses for the period then ended.

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

2 Summary of accounting policies (continued)

f) Changes in accounting policies

IAS 19 (Amendment), Employee Benefits

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. The Group adopted amended IAS 19 and the option to recognise actuarial gains and losses directly in equity. As a result, staff costs in 2006 are lower for HRK 4 million (2005: no impact), net income for 2006 is lower for HRK 3 million (2005: no impact) and retained earnings as of 1 January 2005 were decreased by HRK 17 million net of deferred tax asset in the amount of HRK 4 million.

Revenue recognition for connection fee

As a result of analysis of accounting policies across the telecommunications industry in respect of revenue recognition for connection fees, the Group and the Company changed accounting policies for connection fee revenue recognition so that such revenues are deferred and recognised as income over the estimated average customer retention period. As a result, revenues in 2006 are lower for HRK 10 million (2005: lower for HRK 10 million), net income for 2006 is lower for HRK 8 million (2005: lower for HRK 8 million) and retained earnings as of 1 January 2005 were decreased by the amount of HRK 130 million, net of deferred tax assets in the amount of HRK 33 million.

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

IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

This interpretation is not relevant for the Group since Croatia is not yet a member of the European Union.

IAS 21 (Amendment), Net Investment in a Foreign Operation

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial

statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

IAS 39 Financial instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) - amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) - amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) - amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements.

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6, Exploration for and Evaluation of Mineral Resources

These amendments are not relevant to the Group's operations as the Group is not a first-time adopter of IFRS and does not carry out exploration for and evaluation of mineral resources.

g) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group and the Company in periods beginning on or after 1 January 2007 or later periods. The Group has not early adopted any of these standards or interpretations and will adopt them at their effective date, as follows:

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January, 2007)

These standards will have impact only on presentation and disclosures in financial statements.

IAS 1 - Amended -Capital Disclosures (effective from 1 January 2007)

This standard will have impact only on presentation and disclosures in financial statements.

IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)

Since the Group does not have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.

IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).

IFRIC 8 requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration, which appears to be less than fair value. As no equity instruments were issued, the interpretation is not applicable to the Group's operations.

IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

It is not expected that IFRIC 9 would have any impact on the Group's financial statements.

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

It is not expected that IFRIC 10 would have any impact on the Group's financial statements.

IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions (effective 1 March 2007)

It is not expected that IFRIC 11 would have any impact on the Group's financial statements

IFRIC 12 - Service Concession Arrangements (effective 1 January 2008)

It is not expected that IFRIC 12 would have any impact on the Group's financial statements

IFRS 8 - Operating segments (effective 1 January 2009)

This standard will have impact only on presentation and disclosures in financial statements in respect of operating segments.

h) Operating profit

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

i) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated: represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

2 Summary of accounting policies (continued)

j) Investment in subsidiaries

In the Company's financial statements, investments in subsidiaries are stated at cost less accumulated impairment.

k) Investments in associates

In the Group's financial statements, investments in associated companies (generally investments with an ownership interest of between 20% and 50% in a company's equity) where significant influence is exercised by HT d.d. are accounted for using the equity method less any impairment in value. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in previous years no longer exist.

In the Company's financial statements, investments in associates are stated at cost less any impairment in value.

l) Intangible assets

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

Useful life of intangible assets is as follows:

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

m) Property, plant and equipment

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

After recognition as an asset, an item of property, plant and equipment is carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Independent property, plant and equipment 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, plant and equipment 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 through depreciation as the asset is used.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Buildings	14 years
Machinery and equipment	4 years
Furniture and vehicles	6 years

Useful life of newly acquired assets is as follows:

Buildings	10 - 50 years
Cables	8 - 18 years
Cable ducts and tubes	30 years
Equipment	2 - 15 years
Furniture and vehicles	7 - 10 years

Land is not depreciated.

The useful life, depreciation method and residual values are reviewed at each financial year-end and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

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

Depreciation of an asset begins when it is available for use.

n) 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.

■ Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

■ Intangible assets under construction and Other assets

Intangible assets under construction are tested for impairment annually. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in 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.

o) Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of

cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

p) 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.

q) Receivables

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

r) Foreign currencies

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

s) 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.

t) Taxation

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

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

2 Summary of accounting policies (continued)

t) Taxation (continued)

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

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

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

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

u) Employee benefit obligations

The Company provides benefits for all employees (see Note 18). 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.

Actuarial gains and losses are recognised directly in equity.

v) Revenue recognition

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

Revenue from fixed telephony includes revenue from activation, monthly fee, calls placed by fixed line subscribers and revenue from additional services in fixed telephony. Revenues from activation (connection fees) are recognised on straight-line basis throughout future periods depending on an average useful life of single customer line.

Revenue from carrier services includes interconnection services for domestic and international carriers.

Revenue from mobile telephony includes revenue from installation, monthly fee and call charges for post-paid mobile customers, call charges for pre-paid mobile customers, call charges for customers of international mobile operators when roaming on the T-Mobile's network, sale of mobile handsets and domestic interconnection revenues related to mobile network.

Revenue from monthly fee, unused tariff packages and prepaid vouchers are recognised when they are realised. Before their realisation they are recorded as deferred revenues.

Revenue arrangements with multiple deliverables in mobile business (bundled product offers) are recognised in accordance with industry specific US GAAP rule EITF 00-21 as allowed by IFRS. Revenue arrangements with multiple deliverables are divided into separate units of accounting. Arrangement consideration is allocated among the separate units of accounting based on their relative fair values.

The arrangement consideration allocable to a delivered item that does not qualify as a separate unit of accounting within the arrangement is combined with the amount allocable to the other applicable undelivered item within the arrangement. Appropriate recognition of revenue is then applied to those combined deliverables as a single unit of accounting. The amount allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).

Revenue from Internet and data services includes revenue from leased lines, frame relay, X.25, ATM, VPN, revenue from Internet subscription, ADSL traffic, fixed line access, WEB hosting, VPN and revenue from Internet traffic to T-Com call number.

Revenue from dividends is recognised when the Group's right to receive the payment is established.

w) 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.

x) 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.

y) 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. 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.

z) Provisions

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

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

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

aa) 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.

bb) 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.

cc) Subsequent events

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

3 Business combinations

On May 30th 2006 the Company acquired 100% of the voting shares of Iskon Internet Inc., an unlisted company based in Zagreb specialising in area of Internet access, data transfer, private networks for medium and small enterprises as well as web hosting services.

The fair value of the identifiable assets and liabilities of Iskon Internet Inc. as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair value recognised at Acquisition HRK millions	Carrying Value HRK millions
Intangible assets	2	2
Property, plant and equipment	25	25
Goodwill	1	1
Trade Receivables	7	7
Prepaid expenses and other current assets	3	3
Cash and cash equivalents	22	22
	60	60
Long term liabilities	(3)	(3)
Trade Payables	(8)	(8)
Other liabilities and accrued expenses	(26)	(26)
	(37)	(37)
Neto assets	23	23
Goodwill arising on acquisition (provisionally determined)	77	-
Total	100	-

The total cost of acquisition was HRK 100 million and is paid in cash.

Cash flow on acquisition:

	HRK millions
Net cash acquired with the subsidiary	22
Cash paid	(100)
Net cash outflow	(78)

From the date of acquisition, Iskon Internet Inc. has contributed to the net profit of the Group with loss of HRK 23 million. If the acquisition had taken place at the beginning of the year, the profit of the Group would amount to HRK 2,039 million.

The goodwill of HRK 77 million mainly comprises the fair value of expected synergies arising from the acquisition. Initial accounting for this acquisition has been determined provisionally as the fair value allocation was not completed.

4 Revenue

a) Revenue - by business

	HT Group 2006 HRK millions	HT Group 2005 HRK millions Restated	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions Restated
Revenue from fixed telephony	3,558	4,020	3,561	4,023
Revenue from mobile telephony	3,708	3,432	-	-
Revenue from carrier services	665	624	1,059	974
Revenue from Internet services	490	301	467	305
Revenue from data services	209	228	209	231
	8,630	8,605	5,296	5,533

b) Revenue - by geographical area

	HT Group 2006 HRK millions	HT Group 2005 HRK millions Restated	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions Restated
Republic of Croatia	7,741	7,727	4,959	5,124
Rest of the World	889	888	337	409
	8,630	8,615	5,296	5,533

5 Other material costs and costs of services

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Domestic interconnect	682	692	774	853
International settlements	431	466	273	330
Advertising costs	296	283	132	111
Maintenance services	332	271	232	193
Rent	113	109	59	68
Other costs	365	246	206	192
	2,219	2,067	1,676	1,747

6 Depreciation, amortisation and write down of fixed assets

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Depreciation	1,305	1,251	951	914
Amortisation	292	208	134	87
	1,597	1,459	1,085	1,001
Impairment loss	68	47	66	12
	1,665	1,506	1,151	1,013

Refer to Note 11 for further details on depreciation expense and impairment loss.

7 Costs of redundancy

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Provision at 1 January	557	606	557	598
Additions charged to the income statement	11	390	11	390
Utilisation	(140)	(439)	(140)	(431)
Provision at 31 December	428	557	428	557

Redundancy costs and accrued liabilities of the Company and the Group include the amount of gross severance payments for employees whose employment contracts will be terminated during 2007 due to business reasons.

8 Other costs

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Education and consulting costs	129	180	95	132
Bank charges, membership and other fees	129	150	71	81
Daily allowances and other costs of business trips	28	35	21	26
Loss on disposal of fixed assets	18	26	5	3
Security costs	34	44	34	44
Contract workers	39	31	16	15
Provision for charges and risks (Note 19)	-	22	-	22
Other operating charges	220	209	118	152
	597	697	360	475

9 Taxation

a) Tax on profit

	HT Group 2006 HRK millions	HT Group 2005 HRK millions Restated	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions Restated
Current tax expense	559	539	312	278
Deferred tax benefit	(25)	(39)	(30)	(42)
Taxation	534	500	282	236

9 Taxation (continued)

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

	HT Group 2006 HRK millions	HT Group 2005 HRK millions Restated	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions Restated
Profit on ordinary activities before taxation	2,592	2,431	2,358	1,948
Income tax at 20%	518	486	472	390
Not taxable items:				
Dividends received and incentives	(4)	(4)	(198)	(165)
Related to provision for bad debts	(6)	-	(6)	-
Other non taxable items:				
Value adjustments of inventories and other assets	-	(12)	-	(12)
Provision for bad debts	7	5	7	5
Other	(5)	-	(3)	-
Tax effects of expenses not deductible in determining taxable profit:				
Entertainment expenses	6	6	4	4
Other non-deductible expenses	18	19	6	14
Taxation	534	500	282	236

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

HT Group	2006. HRK millions	Charge / (credit) to Income statement HRK millions	2005. HRK millions Restated
Deferred tax asset			
Property, plant and equipment write down	32	4	36
Deferred revenue from connection fees	29	5	34
Actuarial gains and losses in retained earnings	11	-	11
Other	19	5	24
Total deferred tax assets	91	14	105
Deferred tax liability			
Property, plant and equipment write up	(297)	(39)	(336)
Net deferred tax credit to income statement		(25)	

HT d.d.	2006.	Charge / (credit) to Income statement	2005.
	HRK millions	HRK millions	HRK millions Restated
Deferred tax asset			
Property, plant and equipment write down	29	4	33
Deferred revenue from connection fees	29	5	34
Actuarial gains and losses in retained earnings	11	-	11
Total deferred tax assets	69	9	78
Deferred tax liability			
Property, plant and equipment write up	(297)	(39)	(336)
Net deferred tax credit to income statement		(30)	

The deferred tax asset of the Company arises on the property, plant and equipment write down as a result of the fact that HRK 395 million of the write down reported in 2001 was not tax deductible in 2001. Of this amount, HRK 248 million became tax deductible in the period from 2002 to 2006, and the remaining HRK 147 million will be tax deductible in future periods.

The Company has recognised deferred tax assets based on revenue recognition of connection fees in previous periods when the tax on those revenues is paid, and due to applying of new accounting policy when such revenues are deferred for the period of useful life of providing services to the customers.

The deferred tax liability arises on the property, plant and equipment write up in 2001 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:

	2006	2005
	HRK millions	HRK millions
At 1 January	336	381
Depreciation transfer from revaluation reserves	(39)	(45)
At 31 December	297	336

10 Intangible assets

HT Group	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2005	420	620	14	267	1,321
Additions	67	237	3	54	361
Transfers	8	176	-	(184)	-
Disposals	-	(1)	-	-	(1)
At 31 December 2005	495	1,032	17	137	1,681
Additions	10	64	1	230	305
Acquisitions of a subsidiary (Note 3)	-	1	-	1	2
Transfers	47	197	5	(249)	-
Reclassification from tangible assets	-	-	-	42	42
Disposals	-	(2)	(1)	(59)	(62)
At 31 December 2006	552	1,292	22	102	1,968
Accumulated amortisation					
At 1 January 2005	123	214	9	-	346
Charge for the year	53	153	2	-	208
Disposals	-	(1)	-	-	(1)
At 31 December 2005	176	366	11	-	553
Charge for the year	68	222	2	-	292
Impairment loss	-	-	-	59	59
Disposals	-	(2)	(1)	(59)	(62)
At 31 December 2006	244	586	12	-	842
Net book value					
At 31 December 2005	319	666	6	137	1,128
At 31 December 2006	308	706	10	102	1,126

The intangible assets of the Group as of 31 December 2006 include the GSM and UMTS licence with the carrying value of HRK 28 million and HRK 122 million (2005: HRK 38 million and HRK 129 million), respectively. GSM and UMTS licence is amortised over a period of 10 (starting from September 1999) and 20 (starting from June 2005) years, respectively.

Assets under construction primarily relates to software and the various licences for use of software.

Additions of intangible assets

Major additions for in 2006 for Company relate to software for work force / work order management in the amount of HRK 13 million, software for billing in the amount of HRK 8 million and software for accounts receivable in the amount of 13 million.

Major additions for in 2006 for other companies in the Group relate to software for accounts receivable in the amount of HRK 16, software for customer relationship management in the amount of HRK 23 million and software for switching in the amount of HRK 45 million.

HT d.d.	Licences and concessions HRK millions	Software HRK millions	Other assets HRK millions	Assets under construction HRK millions	Total HRK millions
Cost					
At 1 January 2005	43	306	12	265	626
Additions	6	115	2	34	157
Transfers	6	175	-	(181)	-
At 31 December 2005	55	596	14	118	783
Additions	9	61	1	55	126
Transfers	5	39	-	(44)	-
Disposals	-	(2)	(1)	(59)	(62)
At 31 December 2006	69	694	14	70	847
Accumulated amortisation					
At 1 January 2005	29	98	9	-	136
Charge for the year	7	79	1	-	87
At 31 December 2005	36	177	10	-	223
Charge for the year	8	125	1	-	134
Impairment loss	-	-	-	59	59
Disposals	-	(2)	(1)	(59)	(62)
At 31 December 2006	44	300	10	-	354
Net book value					
At 31 December 2005	19	419	4	118	560
At 31 December 2006	25	394	4	70	493

Impairment loss

During 2006, the Company recognised an impairment loss of intangible assets in the amount of HRK 59 million (2005: nil) which relates to software for client relationship management due to its inapplicability for changed business processes and needs.

Fully amortised intangible assets

The gross carrying value of fully amortised intangible assets still in use as at 31 December 2006 was HRK 51 million and HRK 60 million, for the Company and the Group respectively (2005: HRK 35 million and HRK 41 million).

11 Property, plant and equipment

Property, plant and equipment is stated at revalued amounts. In accordance with this policy, independent valuations will be performed periodically and professional appraisers performed the first valuation as of 1 January 2001. The appraisal company determined the fair value of the entire amount of the Company's property, plant and equipment based on their market value as at 1 January 2001. When there was no evidence of market value because of the specialised nature of the property and equipment and because the items are rarely sold, they were valued at the depreciated replacement cost.

The Company's management estimates that there 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	Telecomm plant and machinery HRK millions	Tools, vehicles IT and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost or valuation					
At 1 January 2005	1,814	10,074	807	443	13,138
Additions	59	489	148	320	1,016
Transfers	38	213	24	(275)	-
Disposals	(1)	(320)	(46)	(44)	(411)
At 31 December 2005	1,910	10,456	933	444	13,743
Additions	20	553	7	540	1,120
Acquisitions of a subsidiary (Note 3)	-	16	5	4	25
Reclassification to intangible assets	-	-	-	(42)	(42)
Transfers	93	389	50	(532)	-
Disposals	(4)	(244)	(41)	(7)	(296)
At 31 December 2006	2,019	11,170	954	407	14,550
Accumulated depreciation					
At 1 January 2005	417	4,007	401	36	4,861
Charge for the year	108	1,006	137	-	1,251
Impairment loss	2	33	-	12	47
Transfers	(3)	3	-	-	-
Disposals	(1)	(288)	(39)	(44)	(372)
At 31 December 2005	523	4,761	499	4	5,787
Charge for the year	117	1,055	133	-	1,305
Impairment loss	-	7	2	-	9
Disposals	-	(202)	(74)	(3)	(279)
At 31 December 2006	640	5,621	560	1	6,822
Net book value					
At 31 December 2005	1,387	5,695	434	440	7,956
At 31 December 2006	1,379	5,549	394	406	7,728

HT d.d.	Land and buildings HRK millions	Telecomm plant and machinery HRK millions	Tools, vehicles IT and office equipment HRK millions	Assets under construction HRK millions	Total HRK millions
Cost or valuation					
At 1 January 2005	1,490	8,069	709	338	10,606
Additions	21	366	119	212	718
Transfers	17	199	9	(225)	-
Disposals	(2)	(7)	(26)	(18)	(53)
At 31 December 2005	1,526	8,627	811	307	11,271
Additions	16	462	95	189	762
Transfers	21	169	28	(218)	-
Disposals	(1)	(32)	(40)	(2)	(75)
At 31 December 2006	1,562	9,226	894	276	11,958
Accumulated depreciation					
At 1 January 2005	371	3,013	358	2	3,744
Charge for the year	83	712	119	-	914
Impairment loss	-	-	-	12	12
Transfers	(2)	6	(4)	-	-
Disposals	(1)	(5)	(20)	(14)	(40)
At 31 December 2005	451	3,726	453	-	4,630
Charge for the year	85	740	126	-	951
Impairment loss	-	5	2	-	7
Transfers	(1)	(1)	-	-	-
Disposals	-	(28)	(35)	-	(63)
At 31 December 2006	537	4,442	546	-	5,525
Net book value					
At 31 December 2005	1,075	4,901	358	307	6,641
At 31 December 2006	1,025	4,784	348	276	6,433

Included within assets under construction of the Group and the Company are spare parts of HRK 37 million and HRK 23 million (2005: HRK 51 million and HRK 34 million), net of a provision of HRK nil and nil (2005: HRK 4 million and HRK nil), respectively.

Beginning in 2001, HT d.d. has performed additional procedures which have provided support for the existence of legal title to land and buildings transferred from HPT s.p.o. under the Separation Law of 10 July 1998. HT d.d. is still in the process of formally registering this legal title.

11 Property, plant and equipment (continued)

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.

Disposal of property, plant and equipment

The disposal of Group's property, plant and equipment primarily relates to the disposal of the base stations as a part of the network modernisation. As a part of preparation for EDGE and UMTS implementation, Group adjusted the value of the base station radio equipment planned for replacement in the financial statements and wrote it down to the contracted sales price. The total value of impairment for the assets planned to be sold is HRK 2 million, which is recorded as an expense in the accompanying income statement.

Ownership over ducts

Although the assets (including the ducts as a part of the infrastructure) were transferred from the legal predecessor of the Company, HPT Public Company by virtue of the "Law on Separation of Croatian Post and Telecommunication" and contributed by the Republic of Croatia to the share capital at the foundation of the Company on 1 January 1999,

according to other Croatian legislation, part of T-HT's infrastructure that may be considered as a real estate (ducts) - does not have all necessary documents (building, use permits etc.) and the major part is not registered in the land registry, which may be relevant for the issue of proving the ownership towards third parties.

There are instances of intrusions in the Company's ducts by competitors and some claims of ownership over these assets by the authorities (local and State), that may have a material effect on the financial statements in the case the Company loses ownership rights on some ducts. Due to the fact that this matter is very complex and it does not depend only on T-HT but also on State and local authorities, the Company can not estimate the outcome of these ownership claims and no adjustments were made to these financial statements relating to this matter.

The net book value of all the Company's ducts as of 31 December 2006 is HRK 1,266 million (2005: HRK 1,299 million).

Fully depreciated tangible assets

The gross carrying value of the Company's and Group's fully depreciated property, plant and equipment still in use as at 31 December 2006 was HRK 462 million and HRK 573 million, respectively (2005: HRK 792 million and HRK 841 million, respectively).

12 Investment in subsidiaries

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

Entity	Country of Business	Ownership Interet 2006	Ownership Interet 2005
T-Mobile Hrvatska d.o.o.	Republic of Croatia	100%	100%
KDS d.o.o.	Republic of Croatia	100%	100%
Iskon Internet d.o.o.	Republic of Croatia	100%	-

13 Investments in associates

The net book value of investments in associates comprises:

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
HT d.o.o. Mostar	22	22	22	22
HP d.o.o. Mostar	2	2	2	2
HT MOBilne komunikacije d.o.o. Mostar	75	75	14	14
At 31 December	99	99	38	38

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%
HT MOBilne komunikacije d.o.o. Mostar	Republic of Bosnia and Herzegovina	Provision of mobile telecommunication services	49.00%

Eronet d.o.o. has changed its registered name to HT MOBilne komunikacije d.o.o. Mostar as of 13 March 2006.

13 Investments in associates (continued)

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

The net book value	2006 HRK millions	2005 HRK millions
At 1 January	99	98
Share of profits	39	56
Dividends paid	(1)	(1)
Impairment of investments	(38)	(54)
At 31 December	99	99

In 2004, HT MObilne komunikacije lost its licence for the provision of telecommunication services in Bosnia and Herzegovina and in 2005 HT MObilne komunikacije operated based on a short term agreement with the licence holder HT Mostar. As this agreement was short term and expired at 31 December 2005, the Company performed an impairment assessment of its investments in HT MObilne komunikacije and management estimated the recoverable amount of this investment to be HRK 75 million. As a result of this review a further impairment charge of HRK 38 million is recognised in the consolidated income statement (2005: HRK 54 million). Summarised the Group's share in aggregated financial information of associates is as follows:

Share of the associates balance sheets :	2006 HRK millions	2005 HRK millions
Current assets	141	118
Non-current assets	681	632
Current liabilities	(166)	(121)
Non-current liabilities	(182)	(189)
Net assets	474	440
Share of the associates revenue and profits:		
Revenue	429	346
Profit	32	39

The above 2006 figures are extracted from unaudited financial information while 2005 figures are extracted from audit financial statements that contain several audit qualifications.

14 Other investments

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Available-for-sale investments - non-current	14	91	13	91
Total non current investments	14	91	13	91
Available-for-sale current investments	878	946	731	849
Total current investments	878	946	731	849

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

Issuer	Currency	Interest rate	Maturity	2006 HRK millions	2005 HRK millions
Government of Croatia	EUR	6.875%	14 December 2008	-	32
Government of Croatia	EUR	5.5%	10 February 2014	-	8
Government of Croatia	HRK	5.25%	15 December 2015	-	38
Other equity securities	HRK			14	13
				14	91

Current available-for-sale investments include the following:

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Unit holdings in money market funds:				
ZB Invest d.o.o.	97	176	95	151
Erste Invest d.o.o.	73	92	73	72
PBZ Invest d.o.o.	25	20	25	20
Raiffeisenbank Invest d.o.o.	69	100	69	75
CAIB Invest d.o.o.	-	21	-	21
	264	409	262	339
Treasury bills:				
Ministry of Finance of Republic of Croatia	614	510	469	510
	614	510	469	510
Bonds:				
Government of Croatia	-	27	-	-
	-	27	-	-
	878	946	731	849

Estimated fair value of units in money market funds and bonds as of 31 December 2006 is determined by reference to their market value at the balance sheet date offered on secondary capital market.

15 Inventories

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Merchandise	89	83	32	26
Inventories and spare parts	86	94	77	84
	175	177	109	110

16 Debtors

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Trade debtors	898	1,226	682	838
Other debtors	237	92	56	51
	1,135	1,318	738	889

17 Trade payables and other current liabilities

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Trade payables	1,139	833	615	414
Accrued liabilities	114	113	96	91
Payroll and payroll taxes	86	90	72	77
VAT and other taxes payable	15	12	14	12
Other creditors	29	16	6	4
	1,383	1,064	803	598

There are no formal procedures in Croatia to agree the final level of tax charge upon submission of the declaration for corporate tax and VAT. However, such tax settlements may be subject to review by the relevant tax authorities at any time during the three years following the end of the tax year in which the income tax returns were submitted. Given the above, tax liabilities of the Company for the years 2003 and thereafter are open to tax review. During 2005, the tax authorities completed examining the income tax liabilities of the Company for years from 2000 to 2002 and claimed that an additional HRK 92 million of taxes and interests in respect of these years should be paid. The Company has made an appeal against this claim and an objection on Resolution to the same tax authorities and the procedure is still in progress. The Company has made a provision for the additional amount that is in its view, reasonable to expect to be settled in this case. No further disclosures are made as required by IAS 37 because they may prejudice the position of the Company in this dispute. Part of total amount of accrued liabilities relates to this matter.

18 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 and jubilee benefits are dependent on the number of years of service in the Group or the Company. 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. In 2006 the Company changed its accounting policy relating to recognition of actuarial gains and losses. Gains and losses resulting from changes in actuarial assumptions are recognised as income / expense in the period in which they occur. Such actuarial gains and losses are presented in a statement of recognised income and expense. In previous years such gains and losses were not recognised in the period in which they occur and were recognised as income / expense over the expected remaining service life of the active employees.

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

	HT Group 2006 HRK millions	HT Group 2005 HRK millions Restated	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions Restated
Present value of funded defined benefit obligations	199	206	186	193
Unrecognised past service cost	(2)	(7)	(2)	(7)
Net liability	197	199	184	186

Benefit expense comprises the following:

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Current service cost	21	20	19	18
Interest expense on obligations	14	12	13	11
Amortisation of past service cost	1	1	1	1
Amortisation of loss	11	-	11	-
Curtailment gains / (losses) recognised	(23)	-	(23)	-
Total benefit expense	24	33	21	30

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

	HT Group 2006 HRK millions	HT Group 2005 HRK millions Restated	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions Restated
Net liability, beginning of year	193	151	186	146
Net expense recognised in the income statement	24	33	21	30
Payments made under scheme	(22)	(25)	(21)	(24)
Actuarial (gains) / losses	4	34	(2)	34
Net liability, end of year	199	193	184	186

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

	2006 %	2005 %
Discount rate (p.a.)	6.5	6.5
Wage and salary increases (annually)	4.5	4.5

19 Provisions

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
At 1 January	110	94	108	91
Additions	4	22	-	22
Utilisation	(11)	(6)	(11)	(5)
Reversal	(6)	-	(6)	-
At 31 December	97	110	91	108

As at 31 December 2006 the Company and the Group has provided estimated amounts for several legal actions and claims that management has assessed as likely to be asserted in the future against the Company and the Group, respectively.

20 Share capital

Authorised, issued, fully paid and registered share capital

	2006 HRK millions	2005 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 2006.

21 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.

22 Reconciliation of movements in equity

HT Group	Subscribed share capital HRK millions	Legal reserves HRK millions	Revaluation reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Total HRK millions
Balance as at 1 January 2005, as reported	8,189	265	1,522	19	2,773	12,768
Restatement due to change in accounting policy	-	-	-	-	(147)	(147)
Balance as at 1 January 2005, restated	8,189	265	1,522	19	2,626	12,621
Allocation of net income	-	129	-	-	(129)	-
Depreciation transfer, net of related deferred tax of HRK 45 million	-	-	(179)	-	179	-
Dividends paid	-	-	-	-	(1,830)	(1,830)
Total recognised income and expense for the year	-	-	-	2	1,894	1,896
Balance as at 31 December 2005	8,189	394	1,343	21	2,740	12,687
Allocation of net income	-	137	-	-	(137)	-
Depreciation transfer, net of related deferred tax of HRK 39 million	-	-	(156)	-	156	-
Paid advance dividends for 2005	-	-	-	-	(813)	(813)
Total recognised income and expense for the year	-	-	-	(9)	2,053	2,044
Balance as at 31 December 2006	8,189	531	1,187	12	3,999	13,918

HT d.d.	Subscribed share capital HRK millions	Legal reserves HRK millions	Revaluation reserves HRK millions	Fair value reserves HRK millions	Retained earnings HRK millions	Total HRK millions
Balance as at 1 January 2005, as reported	8,189	230	1,522	19	1,856	11,816
Restatement due to change in accounting policy	-	-	-	-	(147)	(147)
Balance as at 1 January 2005, restated	8,189	230	1,522	19	1,709	11,669
Allocation of net income	-	86	-	-	(86)	-
Depreciation transfer, net of related deferred tax of HRK 45 million	-	-	(179)	-	179	-
Dividends paid	-	-	-	-	(1,830)	(1,830)
Total recognised income and expense for the year	-	-	-	-	1,685	1,685
Balance as at 31 December 2005	8,189	316	1,343	19	1,657	11,524
Allocation of net income	-	87	-	-	(87)	-
Depreciation transfer, net of related deferred tax of HRK 39 million	-	-	(156)	-	156	-
Paid advance dividends for 2005	-	-	-	-	(813)	(813)
Total recognised income and expense for the year	-	-	-	(7)	2,078	2,071
Balance as at 31 December 2006	8,189	403	1,187	12	2,991	12,782

On 16 January 2006, the General Assembly of the Company declared an advance dividend payment to the shareholders resulting from preliminary results of the Company for 2005 in the amount of HRK 813 million (HRK 9.93 per share) that was paid in January 2006. (2005: HRK 1,830 million, HRK 22.35 per share).

The Company's wholly owned subsidiary, T-Mobile Croatia d.o.o., declared a dividend in November 2006 in the amount of HRK 971 million that was paid to the Company in December 2006 (2005: HRK 811 million).

The release of revaluation reserves to retained earnings in the amount of HRK 195 million (2005: HRK 224 million), net of HRK 39 million of deferred tax (2005: HRK 45 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 11.

23 Commitments

a) Operating lease commitments

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

Operating lease charges:

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Current year expense (Note 5)	113	109	59	68

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 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Within one year	119	80	51	50
Between 2 and 5 years	412	267	169	168
Greater than 5 years	383	409	272	311

The contracts relate primarily to property leases and car leases.

b) Capital commitments

As at 31 December 2006, the Group and the Company were committed under contractual agreements to capital expenditures as follows:

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Intangible assets	36	90	2	2
Property, plant and equipment	385	339	106	69
	421	429	108	71

24 Contingencies (the Group and the Company)

a) 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 cases will not have a material adverse effect on the financial position of HT d.d. except for certain claims for which provision was established (see Note 19).

There has been a complaint made by competitor VIPnet d.o.o. towards the Competition Protection Agency regarding Frame Agreements that the Company signed with its key and large business clients that allegedly contain anti-competitive clauses. The Agency has initiated proceedings for assessing the compliance of the Frame Agreements and Appendices thereto with the Law on Protection of Market Competition. The Company has delivered to the Agency all requested Frame Contracts and Appendices thereto as well as the Subscriber Contracts dated 1 January 2003 onwards. The Agency has initiated administrative proceeding for assessing whether the Company has abused its dominant position by conclusion of the Frame Agreements. The penalty for violations of the Law on Protection of Market Competition could amount up to 10% of the annual turnover. Due to the fact that Agency has not determined relevant markets for these proceedings yet, the Management of the Company was not able to determine the likelihood of the possible outcome of the case. At this point in time, the Management of the Company does not expect a material provision will be required in this respect.

Similar complaint regarding Frame Agreements has been addressed by fixed competitor Optima to the Croatian Telecommunications Agency in June 2006. The penalty for violations of the Law on Telecommunications could amount

up to 5% of the annual turnover. Due to the fact that the proceedings just started, the Management of the Company was not able to determine the likelihood of the possible outcome of the case. At this point in time, the Management of the Company does not expect a material provision will be required in this respect.

b) Billing interval

The State Inspectorate of the Republic of Croatia (hereinafter: the State Inspectorate), on January 29, 2004, started an investigation on the implementation of the provisions of the Law on Consumer Protection regarding a method of charging public voice services. Namely, the Company charges intervals of 60 seconds for national calls and intervals of 15 seconds for fixed to mobile and international calls. The State Inspectorate is investigating allegations pursuant to which the applied charging method should be per 1 second instead of intervals the Company is currently charging. If the State Inspectorate concludes that the Company must charge customers on per second basis, it may pass a resolution pursuant to which (i) the Company must return to the residential customers overcharged amounts from the day of application of the Law on Consumer Protection (September 2003) until the date of resolution; and (b) the Company would be prohibited to further charge per 60 or per 15 seconds and that per 1 second charging should be applicable method. There has been no development on this issue since mid 2004. However, a new Bylaw on telecommunication services was brought into force as 1 January 2005 which requires the Group to introduce at least one tariff package that has a billing interval of 1 second. This significantly decreases the risk as it does not prohibit tariff packages with intervals longer than 1 second that was the subject of the State Inspectorate investigation. Nevertheless, the Company is unable to assess whether the investigation that was performed by State Inspectorate will result in a material liability, and therefore, no provision has been recorded in the financial statements as at 31 December 2006.

25 Balances and transactions with related parties

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 2006 and 2005. Further, DTAG and T-Mobile Germany provided technical assistance to the Group in the amount of HRK 54 million (2005: HRK 56 million).

The main transactions with related parties during 2006 and 2005 were as follows:

Related party:	Revenue		Expenses	
	2006	2005	2006	2005
	HRK millions	HRK millions	HRK millions	HRK millions
T-Systems Enterprise services, Germany	38	40	13	18
HT Mostar, Bosnia and Herzegovina	28	30	44	48
T-Mobile, Germany	23	47	20	15
Others	68	83	49	53
Total international settlements	157	200	126	134
Deutsche Telekom AG, Germany	-	-	59	67
T-Systems Enterprise services, Germany	-	-	7	6
Others	1	0	16	5
Total intercompany services	1	0	82	78
T-Systems Enterprise services, Germany	-	-	15	14
Deutsche Telekom AG, Germany	-	-	-	9
Others	-	-	8	6
Total capital expenditures	-	-	23	29
Total related parties	158	200	231	241

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

Related party:	Receivables		Payables	
	2006	2005	2006	2005
	HRK millions	HRK millions	HRK millions	HRK millions
T-Systems Enterprise services, Germany	7	23	2	7
HT Mostar, Bosnia and Herzegovina	13	14	23	27
T-Mobile, Germany	1	-	22	16
Others	11	5	27	30
Total international settlements	32	42	74	80
Deutsche Telekom AG, Germany	-	-	29	60
T-Systems Enterprise services, Germany	-	-	9	8
Others	-	-	5	5
Total intercompany services	-	-	43	73
Total related parties	32	42	117	153

The Group provides telecommunications services to the Government of Republic of Croatia and its ministries, on normal commercial terms and conditions, such as are no more favourable than those available to other customers. The telecommunications services provided to the Government of Republic of Croatia and its ministries do not represent a significant component of the Group's revenue.

The Company incurred following balances and transaction with subsidiaries:

Subsidiaries:	Sales	Purchases	Receivables	Payables
	HRK millions	HRK millions	HRK millions	HRK millions
2005	389	431	110	129
2006	437	387	143	200

Compensation of key management personnel

In 2006 total compensation paid to key management personnel of the Group amount to HRK 26 million (2005: HRK 22 million). Compensation paid to key management personnel relate to short-term employee benefits. Key management personnel include members of the Management Boards of the Company and subsidiary, Executive Board of T-Com, executive directors of the Company and directors of the subsidiary.

26 Financial instruments (the Group and the Company)

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

a) Credit risk

The Group has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics. The Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of debtors (see Note 16) net of provisions for impairment recognised at the balance sheet date.

Additionally, the Group is exposed to risk through cash deposits in the banks. Management of the risk is focused on dealing with most reputable banks in foreign and domestic ownership in the domestic market and on contacts with the banks on a daily basis.

b) Liquidity risk

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

Any excess cash is invested mostly in available-for-sale investments.

c) Foreign exchange risk

The Group's functional currency is the Croatian Kuna (HRK). Certain assets and liabilities are denominated in foreign currencies which are translated at the prevailing middle exchange rate of Croatian National Bank at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect short-term cash flows.

Significant amount of deposits in the banks are made in foreign currency, primarily in Euro. As there is no adequate balance in Euro denominated liabilities at the balance sheet date, the Group is 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 Group's principal financial instruments not carried at fair value are trade receivables, other receivables, long-term receivables, trade and other payables. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms approximate their fair values.

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.

Concession fees for Public Voice Services amounts 0.1% (2005: 0.1%), leased line services 0.1% (2005: 0.1%), value added services 0.1% (2005: 0.1%) and other telecommunication services 0.1% (2005: 0.1%) realised from gross annual revenue are effective in 2006.

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 and based on the decision of the authorised regulatory body made on 28 November 2005 has the obligation to provide Universal telecommunication services, as determined in Article 37 of the Law on Telecommunications (Official Gazette No. 122/03, 158/03, 177/03, 60/04, 70/05).

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 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. The authorised Ministry set the new service quality standards within all obligations which are imposed to the provider of Universal telecommunication services.

Prices for telecommunication services that are rendered by HT d.d. and for which authorised 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 authorised 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 Telecommunication Services with the usage of radio frequency spectrum in GSM global network and Concession Agreements for Telecommunication Services with the usage of radio frequency spectrum in third generation mobile network system - UMTS

Service Concession Arrangements	Starting date	Period (years)	Concession fee
Concession Agreements for Telecommunications Services with the usage of radio frequency spectrum in the global mobile network system - GSM	16.09.1999.	10	Initial fee of HRK 100 million Annual fee of HRK 5 million
Concession Agreements for frequencies for provision of public telecommunications services with the usage of radio frequency spectrum in third generation mobile network system UMTS	18.10.2004.	20	Initial fee of HRK 132 million Annual fee for second and every next year of 1% of total revenues realised in UMTS mobile network

T-Mobile has to pay an annual radiofrequency fee of HRK 100 thousand per one duplex channel (60 channels) pursuant to the GSM Concession and HRK 5 million per each granted frequency block of 5 MHz in UMTS network (3 blocks in paired frequency band + 1 block in unpaired frequency band).

In addition, T-Mobile pays an annual fee of HRK 150 for each mobile radio station postpaid customer in GSM. T-Mobile has the right to collect this fee from its customer.

Furthermore, T-Mobile is obliged to pay fees in the amount of 0,2% of operating income (realised under GSM and UMTS concessions and for providing Internet access services) according to applicable Law and By-Laws.

Also, T-Mobile pays annually HRK 3.5 million for each granted National Destination Code (2 NDCs) and HRK 11 thousand for other granted codes.

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 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Cash on hand and balances with banks	233	293	180	185
Time deposits with maturit less than 3 months	1,021	2,596	825	1,964
Cash and cash equivalents	1,254	2,889	1,005	2,149

b) Time deposits

Time deposits are accounts that bear interest from 3.50% to 5.50% and that Group is entitled to withdraw with prior notice.

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

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
Privredna banka Zagreb d.d.	1,034	320	1,034	320
Zagrebačka banka d.d.	821	164	279	164
Societe Generale - Splitska banka d.d.	147	100	147	100
Volksbank d.d.	-	75	-	75
Erste Steiermarkische Bank d.d.	1,075	50	1,075	50
Raiffeisenbank Austria d.d.	659	50	659	50
Hrvatska poštanska banka d.d.	547	-	547	-
	4,283	759	3,741	759

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

	HT Group 2006 HRK millions	HT Group 2005 HRK millions	HT d.d. 2006 HRK millions	HT d.d. 2005 HRK millions
HRK	4,642	2,421	4,044	1,878
EUR	849	1,164	665	985
USD	46	63	37	45
	5,537	3,648	4,746	2,908

29 Subsequent events

The associate HT MObilne komunikacije d.o.o. Mostar was merged with another associate Hrvatske telekomunikacije d.o.o. Mostar as of 3 January 2007. After merging, the new ownership share of the Company in the associate Hrvatske telekomunikacije d.o.o. Mostar amounts to 39.10%.

No other events or transactions, except as stated above, have occurred since 31 December 2006 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.



VI. Index



ADSL	8, 14, 31, 33, 34, 35, 36, 37, 57, 65, 86,	FRAME RELAY	32, 86
ASSET	16, 25, 42, 45, 57, 58, 59, 68, 69, 70, 71, 72, 73, 75, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 88, 90, 91, 92, 93, 94, 95, 96, 98, 100, 108	GPRS	41, 66
ATM	32, 35, 82, 86	GROUP	1, 7, 8, 9, 11, 15, 16, 22, 25, 26, 32, 37, 45, 50, 52, 53, 57, 59, 64, 66, 71, 73, 74, 77, 81, 82, 83, 84, 88, 89, 96, 99, 100, 104, 110, 112, 115
BALANCE SHEET	58, 69, 73, 74, 75, 76, 81, 85, 86, 87, 96, 100, 101, 104, 105, 111, 112, 114	GSM	11, 23, 31, 40, 42, 53, 64, 94, 114
BRAND	8, 22, 26, 37, 40, 41, 51, 64, 66	HT Mostar	14, 100, 110, 111
BROADBAND	8, 10, 14, 22, 23, 24, 25, 26, 31, 32, 33, 34, 35, 36, 37, 42, 57, 64, 65	HT Group	64, 65, 66, 73, 74, 77, 79, 81, 89, 90, 91, 92, 94, 96, 99, 101, 102, 103, 104, 105, 106, 108, 114, 115
CAPITAL	16, 57, 59, 69, 71, 72, 74, 76, 81, 83, 98, 101, 106, 107, 108, 110,	HUMAN RESOURCES	11, 13, 26, 44, 45, 64
COMPANY	7, 8, 9, 10, 11, 13, 14, 16, 23, 24, 25, 26, 37, 40, 42, 44, 45, 50, 51, 53, 57, 59, 64, 66, 68, 71, 72, 74, 76, 78, 79, 80, 81, 82, 84, 87, 90, 95, 98, 103, 104, 108, 110, 114, 115	INCOME	16, 23, 56, 58, 69, 71, 73, 74, 75, 76, 77, 79, 80, 82, 84, 85, 90, 93, 100, 103, 104, 105, 106, 112, 114
CONCESSION	8, 14, 23, 31, 42, 65, 83, 84, 94, 95, 113, 114	INTERNET	7, 8, 10, 14, 22, 23, 24, 25, 32, 33, 35, 36, 40, 41, 50, 51, 56, 64, 65, 66, 81, 86, 88, 89, 99, 114
CONSOLIDATED	7, 15, 16, 56, 57, 58, 59, 69, 71, 72, 73, 74, 77, 78, 79, 80, 81, 82, 100	INVESTMENT	8, 14, 42, 51, 53, 59, 73, 75, 81, 82, 83, 84, 85, 87, 99, 100, 101, 112
DATA	7, 22, 23, 24, 26, 32, 36, 40, 41, 56, 57, 64, 65, 66, 86, 88, 113	ISDN	31, 32, 36, 50
DEPRECIATION	57, 58, 59, 71, 72, 77, 78, 84, 87, 90, 93, 96, 97, 98, 106	ISKON INTERNET	7, 10, 14, 22, 23, 24, 65, 81, 88, 99
DEUTSCHE TELEKOM	13, 50, 64, 81, 110, 111	LICENCES	94, 95
DIAL-UP	33, 35, 36, 50	MANAGEMENT	7, 8, 9, 10, 11, 13, 14, 15, 16, 24, 26, 31, 37, 42, 44, 45, 52, 53, 56, 58, 66, 67, 68, 69, 81, 83, 87, 94, 95, 96, 100, 105, 109, 111, 112
DIVIDEND	8, 16, 59, 72, 77, 78, 83, 86, 92, 100, 106, 107	MAXdsl	8, 31, 32, 34, 35, 37, 50, 57
DT GROUP	14, 31, 32, 36, 37, 45, 52, 53	MAXtv	8, 22, 24, 32, 36, 37, 65
EARNINGS	16, 59, 74, 76, 82, 84, 87, 92, 93, 98, 106, 107	NETWORKS	8, 22, 23, 24, 35, 53, 64, 65, 88
EDGE	7, 16, 24, 25, 35, 36, 40, 44, 45, 50, 51, 82, 98	NMT	64
EMPLOYEES	8, 9, 14, 24, 25, 44, 45, 50, 52, 53, 57, 59, 81, 86, 90, 104	ONLINE	10, 34, 35, 37, 42, 45, 57
ERONET D.O.O.	99	OPERATOR	7, 8, 14, 22, 23, 24, 31, 32, 35, 36, 42, 51, 57, 65, 66, 70, 86,
FGSM	31		
FINANCING	59, 77, 78		
FIXED NETWORK	10, 14, 22, 23, 26, 31, 35, 64, 113		

ORGANIZATION	26, 51, 52, 53	VPN	34, 35, 40, 41, 57, 86
POSTPAID	8, 40, 41, 42, 66, 114	WEB'N'WALK	22, 25, 41, 42,
POTS	31, 32, 41	WIMAX	8, 14, 31, 65
PREPAID	8, 40, 41, 42, 86, 88		
PRIVATE NETWORK	24, 65, 88		
REDUNDANCY	32, 57, 58, 59, 71, 72, 74, 76, 87, 90		
RESTRUCTURING	7, 83		
REVENUE	7, 8, 16, 22, 31, 32, 33, 34, 35, 36, 56, 57, 58, 71, 72, 81, 82, 83, 86, 89, 92, 93, 100, 111, 113, 114		
ROAMING	40, 41, 86		
SERVICES	7, 8, 11, 22, 23, 25, 26, 31, 32, 33, 34, 35, 36, 37, 40, 41, 42, 50, 52, 56, 57, 64, 65, 66, 71, 72, 86, 88, 89, 93, 99, 100, 109, 110, 111, 113, 114		
SHARES	13, 14, 22, 64, 65, 81, 88, 106		
SMS	35, 40, 41, 66		
STRATEGY	7, 8, 11, 14, 22, 23, 24, 34, 44, 45, 50, 51, 52, 65, 66		
SUPERVISORY BOARD	11, 12, 13, 14, 15, 16, 26, 64, 67,		
TARIFF	8, 14, 22, 23, 31, 36, 37, 40, 41, 42, 65, 66, 86, 109		
TAX	57, 58, 59, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 82, 83, 84, 85, 86, 91, 92, 93, 103, 106, 107		
T-COM	7, 8, 9, 10, 14, 24, 26, 31, 32, 33, 34, 35, 36, 37, 50, 51, 64, 65, 86, 111		
T-HRVATSKI TELEKOM	8, 10, 11, 45, 56, 64		
T-HT Group	7, 8, 9, 14, 15, 16, 22, 24, 25, 50, 52, 56, 65, 66		
T-MOBILE	8, 10, 11, 22, 25, 26, 35, 37, 40, 41, 42, 50, 51, 52, 53, 56, 57, 64, 66, 81, 86, 99, 107, 110, 111, 114		
T-PORTAL	34, 35, 37		
UMTS	23, 40, 42, 53, 64, 84, 94, 98, 114		

